

Young people in the labour market

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The recession has hit the young particularly hard. Will targeted policies be effective in the long run?

The effect of the recession and downturn in the UK has been particularly felt by young people in the labour market. 929,000 people aged 16-24 were unemployed in December-February 2010, equivalent to 13% of the whole age group and a rise of 220,000 compared to three years ago. Although there have been significant rises across all age groups, young people make up 38% of the 2.5 million people of working age who are unemployed.

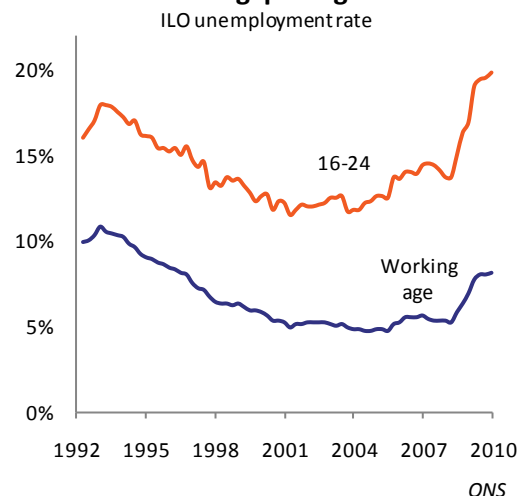
Recessions can have a stronger effect on the employment of young people than others:

- Employers may reduce or freeze recruitment. Opportunities for new entrants to the labour market may therefore be disproportionately reduced.
- It may be easier and cheaper to make less experienced employees redundant. Employers may also be more inclined to retain more experienced and trained employees in whom they have invested more. Younger employees may therefore be more likely to lose their jobs.

Firms retained more employees than many economists expected during the recession. However, this could mean that young people lose out in the long run, with firms slow to build up staffing levels during the recovery.

The youth unemployment rate now exceeds that recorded after the end of the last recession, although in terms of absolute numbers it is at about the same level. Historically, the youth unemployment rate has been higher than the working age rate,

Youth unemployment has long been above the overall rate - and this gap has grown



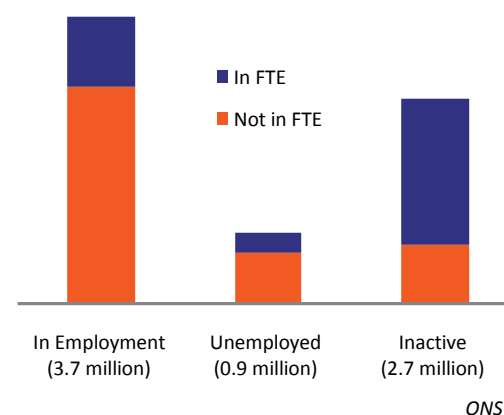
although they have followed the same broad trend. However, the gap between the two has been increasing since 2004, in particular over the last two years.

ECONOMIC INACTIVITY

Underlying this story of rising youth unemployment is a more complex picture of falling employment, rising unemployment and rising economic inactivity (to complicate matters, students are also classified as either employed, unemployed or inactive, and education participation has been rising).

Unemployment rates exclude those who choose to become inactive in the labour market: 2.7 million people aged 16-24

Only half of 16-24s are employed - but most of those who aren't are in education



are inactive, 33% of the total for all ages. Inactivity has fallen for the working age population overall over the last three years but risen for 16-24 year olds. However, 1.9 million of the 2.7 million inactive 16-24s are in full time education.

An alternative indicator of youth unemployment is the number of NEETs (Not in Employment, Education or Training). For 16-18 year-olds, NEET rates (based on Labour Force Survey data) have been relatively stable over recent years, with 9.3% of that age group NEET in Q4 2009: lower than at the same time in 2008. However, those aged 19-24 have fared worse, with just under a fifth (17.4%) of that age group being NEET at the end of 2009 (up from 16.0% in Q4 2008).

IMPACT OF YOUTH UNEMPLOYMENT

Persistent and growing youth unemployment is recognised as a problem with long-term risks. Apart from the time spent in lower wage employment or on state support, unemployment in youth can have longer term effects such as wage scarring that can persist long into adult life, as well as wider societal problems.

The last Government implemented a package of measures to address rising youth unemployment called the Young Person's Guarantee, although it was not fully introduced until January 2010 and it is therefore too early to fully judge its effectiveness. It promised 18-24 year olds who have been claiming Jobseeker's Allowance for six months a job, training or work experience. It is scheduled to run until March 2012.

The rise in youth unemployment, as well as working age unemployment, has stabilised since mid-2009, perhaps suggesting that the worst may be over. However, those that have left the labour market will return at some stage, meaning the problem may just have been postponed. The threat of a "jobless" or slow recovery only adds to the concerns about the longer term impact on young people, with youth unemployment levels likely to be closely monitored for several years to come.