

BRIEFING NOTE

Roads to recovery: three skill and labour market scenarios for 2025

No matter how well the economy performs, people need the ‘right’ skills

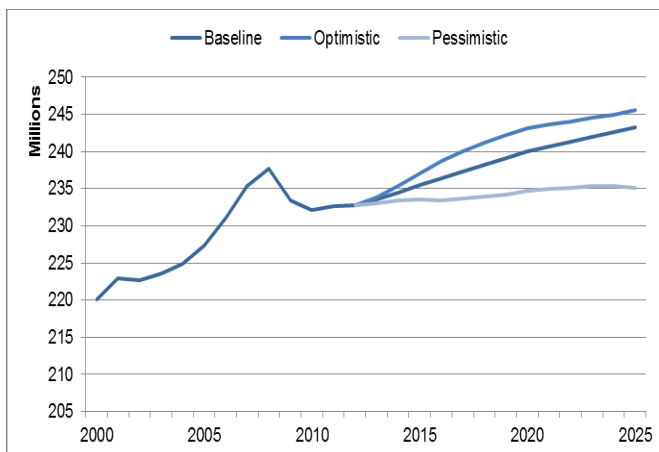
In line with earlier forecasts, Cedefop’s projections for skill supply and demand in the European Union (EU) foresee a gradual return to job growth and an older, but better qualified workforce. The latest forecast extends the time horizon from 2020 to 2025 and differs from its predecessors in seeing demand for high-level qualifications speeding up.

A gradual return to job growth: three scenarios

The forecasts consider three scenarios – baseline, optimistic and pessimistic – to show how different economic circumstances may influence the labour market from now until 2025 (Box 1).

The baseline scenario, used for the forecasts’ main findings, sees employment at around 243 million in EU 27+ in 2025, compared to 245.5 million under the optimistic scenario (Figure 1).

Figure 1: **Past employment and future prospects (EU-27+), 2000-25 (millions)**



This difference is relatively small as even a strong recovery will take time to generate higher employment due to spare economic capacity. In contrast, the pessimistic scenario cuts forecast employment significantly to around 235 million as a prolonged economic slump will not stop but rather severely limit job growth.

Box 1: **Skill supply and demand 2025: three scenarios**

Cedefop’s latest skill demand and supply forecasts for the European Union (EU) extend the forecast period from 2020 to 2025. The forecast covers the 27 EU Member States plus Iceland, Norway and Switzerland, shown in the figures as EU-27+.

The three scenarios take account of global economic developments up to October 2012, the European Commission’s short-term macroeconomic forecast and the latest Eurostat population projections. The different assumptions of each scenario are set out below.

Baseline scenario: a modest economic recovery slowly increases confidence. Credit is more easily available, helping investment and consumer spending to increase. Steadily rising demand outside Europe increases exports, and inflation remains within target range. Governments continue to reduce debt, but higher tax revenues relieve pressure to cut spending. Interest rates remain low. The baseline scenario is used for the forecasts’ main findings.

Optimistic scenario: a speedier economic recovery, greater confidence and widespread bank lending increase investment and consumer spending. Strong economic recovery outside Europe benefits all sectors and boosts exports. Rising global demand increases inflation, but higher tax revenue makes it easier for governments to balance budgets, which eases pressure on interest rates.

Pessimistic scenario: a prolonged economic slump lowers confidence. Limited access to credit and job insecurity depress investment and consumer spending. Global economic recovery is slow and export markets fragile. Subdued demand lowers inflation, but public debt problems persist, adding pressure to raise taxes and cut spending. Interest rates rise to avoid currency crises.

Under the baseline scenario, EU 27+ employment returns to its pre-crisis level between 2017 and 2018 and under the positive scenario between 2015 and 2016. Under the negative scenario employment will still be below its pre-crisis level in 2025.

Although not strictly part of the forecasts, calculations using forecast data indicate that under the baseline and optimistic scenarios the EU will meet or be very close to its benchmark employment rate of 75% for 20 to 64 year-olds in 2020. The pessimistic scenario suggests the target will not be met, with the employment rate reaching around 72% in 2020 and 73% in 2025.

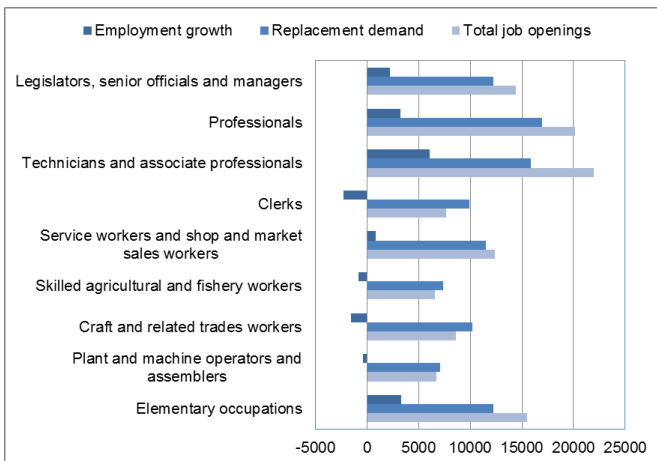
Job opportunities: all types and sectors, but jobs will be more skill-intensive

Job opportunities include newly-created jobs (expansion demand) and jobs that will need to be filled as people retire or leave the workforce (replacement demand).

Unlike expansion demand which is largely affected by how well an economy performs, numbers of people leaving the labour market are influenced mainly by demographic trends and retirement ages. Taking account of these trends and that not everyone retiring needs to be replaced or replaced like-for-like, the forecast is that around 103.5 million of people leaving the labour market will need to be replaced.

Therefore, essentially, the difference between the scenarios reflects how well the economy generates new jobs. The baseline scenario forecasts around 114 million job opportunities between 2012 and 2025, including some 10.5 million new jobs. This rises to over 116 million job opportunities under the optimistic scenario, including some 13 million new jobs. Job opportunities fall sharply under the pessimistic scenario to around 106 million, including some 2.4 million new jobs. The scale of replacement demand means that all three scenarios forecast job opportunities in all occupations and across all levels of skill (Figure 2).

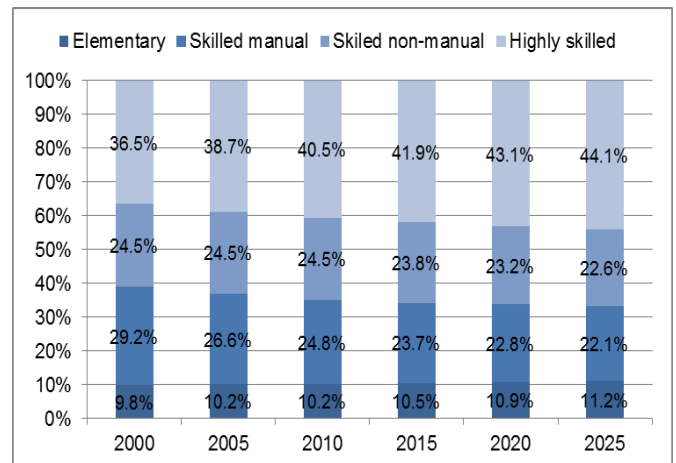
Figure 2: Total job opportunities, baseline scenario (EU-27+) 2012-25 (000s)



Most newly-created jobs will require higher skills, if not necessarily high-level qualifications. Highest rates of job creation are forecast for technicians and associate professionals. Many jobs in this category, such as owner/managers of small businesses and self-employed craft workers may not require high-level qualifications.

Certainly, the proportion of people working in highly-skilled jobs will increase. In 2025, 44.1% of employed people will be in a highly-skilled job, compared to 41.9% in 2010 and 36.5% in 2000 (Figure 3). The employment share of elementary occupations will also continue its steady increase from 9.8% in 2000 and 10.2% in 2010 to 11.2% in 2025.

Figure 3: Employment share by skill level, 2000-25, (EU 27+), baseline scenario (%)



However, even 'elementary' jobs traditionally requiring no or low-level qualifications are expected to become more complex. When assessing trends in skill needs, it is not enough to consider the qualification level required for a job, but also how complex or routine it is becoming. Low-skill production line manufacturing jobs tend to be routine, but the Internet is replacing clerical jobs as people apply for or buy things online. Technology is also affecting highly-skilled jobs. Many routine financial trades are processed by technology and experiments with pilotless aeroplanes are already underway.

Between now and 2025, increasingly the jobs available at all skill levels will be those not easily replaced by technology, organisational change, or outsourcing. They will be jobs requiring people to think, communicate, organise and decide.

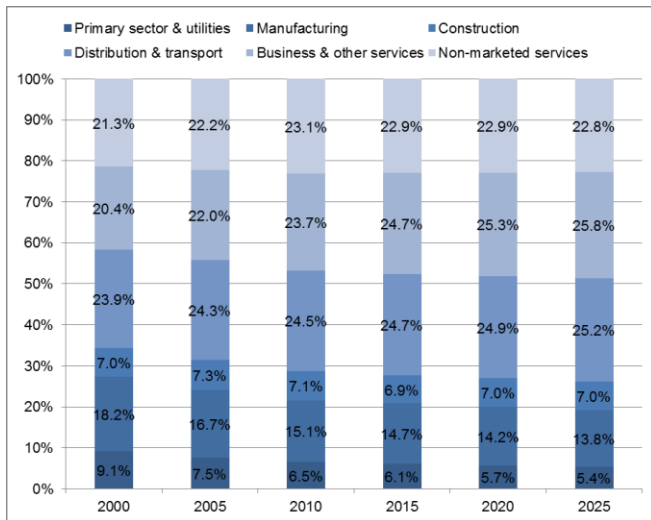
Earlier forecasts indicated that, in total, combining expansion and replacement demand, most job opportunities will require medium-level qualifications.

Taking into account latest data, Cedefop's forecasts suggest this may change.

The forecasts point to growing skill-intensity of jobs but also reflect a tighter labour market where employers can demand more highly-qualified people for the same jobs. For example, between now and 2020, the optimistic scenario, foresees 43.7% of total job opportunities requiring high-level and 46% medium-level qualifications. The baseline scenario narrows this gap to 44% of total job opportunities needing high-level and 45% medium-level qualifications. Under the pessimistic scenario, proportions of total job opportunities requiring high- and medium-level qualifications are roughly equal at around 45.2%.

The forecasts indicate that the distribution, transport and business services sectors will create most new jobs. But changes in sectoral employment shares appear to be slowing down (Figure 4) indicating that, after some years of restructuring, the European economy may be stabilising.

Figure 4: Sectoral employment shares, 2000-25 – baseline scenario (EU-27+) (%)



A better qualified but older workforce

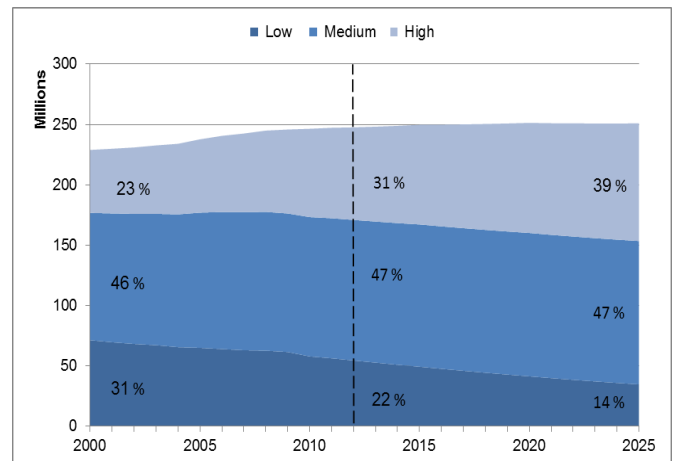
The different scenarios do not alter the labour market's overall demographic trends. Europe's labour force is getting older and many people will retire. As a result, the labour force – namely those people in or seeking work – is forecast to fall as a proportion of the total population from its peak of 57% in 2009 to 55.5% in 2025.

Although proportionally the size of the labour force will fall, the actual number of people in or seeking work in EU 27+ will increase by more than 10 million from 240.3 million in 2012 to 250.9 million in 2025 for

several reasons. Young people (who while in education and training are not counted as in or seeking work) are entering the labour market later in their 20s. Numbers of older workers will rise due to longer working lives and more women are expected to want to work.

Numbers of people with high-level qualifications will continue to increase (Figure 5) as young people tend to be more highly qualified than retiring older workers.

Figure 5: Labour force – share of qualifications, 2000-25 (EU 27+), baseline scenario



By 2025, the share of the labour force with high-level qualifications should rise to 39% compared to 30% in 2010 and 23% in 2000. People with medium-level qualifications will account for 47% of the labour force, the same as in 2010 and close to the 46% in 2000. However, the share with low-level or no qualifications will fall sharply to 14% of the labour force in 2025, compared to 24% in 2010 and 31% in 2000.

All three scenarios indicate that the increase in people holding high-level qualifications will enable the EU to meet its educational attainment benchmark of at least 40% of 30 to 34 year-olds completing tertiary level education by 2020. Early leavers from education and training ⁽¹⁾ should also fall under the EU's benchmark figure of below 10 %, as young people graduate at higher levels and are encouraged to stay in education and training.

Matching skill supply with demand

All forecasts, including Cedefop's, use trends and assumptions and cannot account for every possible development. Disruptive technologies, new work

⁽¹⁾ The share of the population aged 18 to 24 with only lower secondary education or less and no longer in education or training (Eurostat/labour force survey).

organisation, and successful policies to address problems such as youth unemployment can influence outcomes over the forecast period. But the short-term impact of such developments is likely to be small and Cedefop's forecasts have identified consistent trends.

Cedefop's earlier and latest forecasts show Europe's labour force is becoming older and better qualified and that jobs at all skill levels are becoming less routine and more demanding. The three scenarios in the latest forecast also point to skill mismatches (skill shortages and overqualification) in the European labour market in the medium term.

Skill shortages, often for specialist skills (employers cite current shortages in sciences, IT, maths and engineering), change over time. They can be tackled through continuing training and by encouraging young people to learn, at secondary or tertiary level, subjects where shortages persist. Despite the trend towards more skill-intensive and demanding jobs, high unemployment and weak employment demand may increase numbers of people overqualified for the jobs available. Where overqualification lasts it can reduce productivity. People become demotivated. Their unused or undeveloped skills become obsolete. People losing jobs in a recession can become long-term unemployed precisely because their skills and work attitudes deteriorate. The signs are that young people will continue to find it harder to find a job, particularly in some European countries, despite being fewer and better qualified. Job prospects for the low skilled are likely to get worse.

Perhaps the key message from the scenarios for 2025 is that even a robust economic recovery should not mask the need for changes in how Europe develops and uses skills. No matter how well the economy performs, people need the 'right' skills to enter and stay in the labour market. Overqualification and not having the right qualification are very different. In a recession some may take jobs for which they are over- or not well-qualified. But others may be unemployed regardless of their qualification level. If skill demand does not match what they have learned they are, in effect, unqualified for the jobs available.

To match skill supply and demand better, job and career guidance is important in good and bad economic times. More mobility may help reduce high numbers of unfilled vacancies being alongside high unemployment.

Action is being taken to tackle youth unemployment. The European Commission's youth employment package, of December 2012, proposed introducing three measures. First, a youth guarantee; young

people up to age 25 will receive an offer of a job, continued education, an apprenticeship or a traineeship within four months of leaving education or becoming unemployed. Second, a quality framework for traineeships to help provide high-quality work experience for young people and prevent trainees being exploited as cheap labour. Third is a European alliance to improve apprenticeships which is central to broader joint efforts to promote work-based learning and training.

Enterprises have a major role to play. Without their commitment, efforts to help young people enter the labour market cannot succeed. Efficient enterprises adapt to changes in production factors, such as the price of commodities, energy or capital. Now supply of human capital is changing. To prosper, enterprises must consider how to use a better-qualified workforce to bring competitive advantage.



Cedefop's skill demand and supply forecasts are partly funded by Progress (European Community programme for employment and social solidarity (2007-13)), managed by the European Commission's Directorate-General for Employment, Social Affairs and Inclusion.

Cedefop's skill forecast data: www.cedefop.europa.eu

For more information on skill needs in Europe: EU skills panorama (<http://euskills panorama.ec.europa.eu/>)



CEDEFOP

European Centre for the Development of Vocational Training

Briefing note – 9081 EN

Cat. No: TI-BB-13-006-EN-N

ISBN 978-92-896-1282-1, doi: 10.2801/32401

Copyright © European Centre for the Development of Vocational Training (Cedefop), 2013

All rights reserved.

Briefing notes are published in English, French, German, Greek, Italian Polish, Portuguese and Spanish, and the EU Presidency country's language. To receive them regularly e-mail us at:

briefingnotes@cedefop.europa.eu

Other briefing notes and Cedefop publications are at:

<http://www.cedefop.europa.eu/EN/publications.aspx>

P.O. Box 22427, 55102 Thessaloniki, Greece

Europe 123, Thessaloniki, Greece

Tel. +30 2310490111, Fax +30 2310490020

E-mail: info@cedefop.europa.eu

visit our portal www.cedefop.europa.eu