

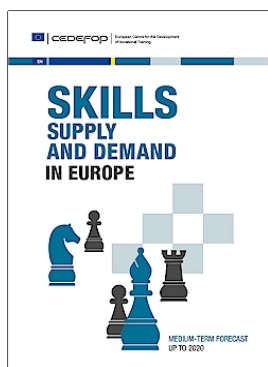
BRIEFING NOTE

What next for skills on the European labour market?

The recession, migration and different policy scenarios can influence Europe's skill demand and supply, but to different extents

The economic crisis of 2008, and the recession that followed, dramatically increased uncertainty about job prospects. It increased the need for people to be better informed about the future labour market.

Cedefop's 2010 skill forecasts ⁽¹⁾ provide the most recent evidence of European ⁽²⁾ labour market developments, as the world economy recovers from the 2008 financial crisis and the subsequent recession. Cedefop will publish a new skill demand and supply forecast in 2012, but in the meantime, Cedefop has updated its 2010 forecast to examine more closely the latest impact of the recession on future skill supply and demand.



Read the report:
Skills supply and demand in Europe: medium-term forecast up to 2020.
<http://www.cedefop.europa.eu/EN/publications/15540.aspx>

Alongside the 2011 update, aspects of migration have been examined and several scenarios developed to consider how issues such as fiscal austerity and economic uncertainty may affect employment and skill demand and supply.

⁽¹⁾ The project is supported financially by the Progress programme – European Community programme for employment and social solidarity (2007-13), managed by the Directorate General for Employment, Social Affairs and Equal Opportunities of the European Commission.

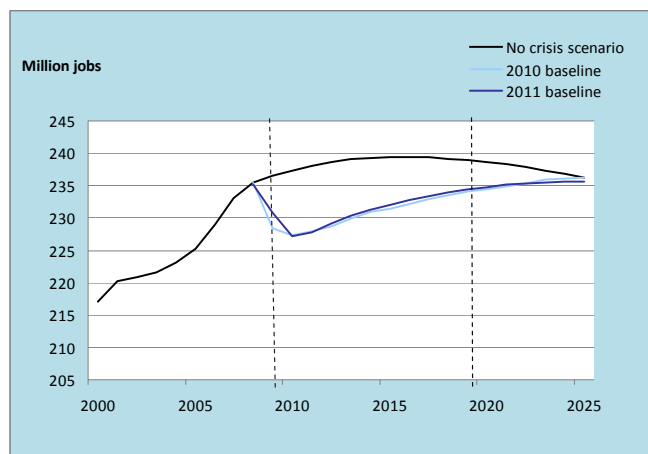
⁽²⁾ The forecast covers 29 European countries (EU-27, Norway and Switzerland); it is referred to as EU-27+.

Effects of the recession on employment and demand for skills

While world economic growth, led by developing economies, is reasonably strong, the consensus for Europe is an extended period of modest growth.

Cedefop's 2010 forecast was that the recession would reduce employment in Europe in 2010, compared to no crisis scenario, by around 10 million. This proved fairly accurate (Figure 1).

Figure 1. **Impact of the recession on employment, EU-27+**

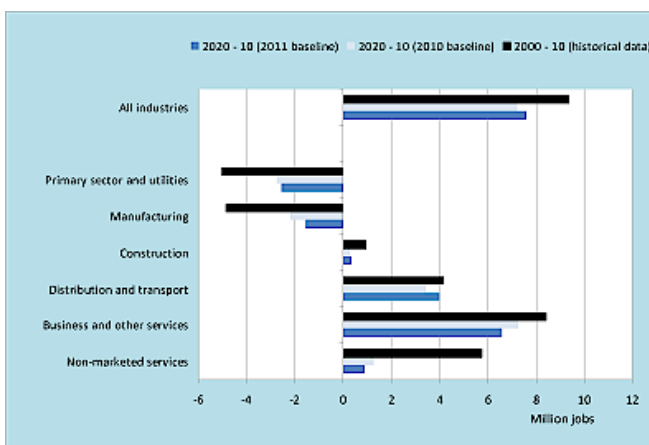


At sector level, the recession appears to have accelerated the current trend of the shift in jobs from primary and basic manufacturing to services. Primary and manufacturing sectors lost more jobs than expected due to the recession. Employment in these sectors continues to fall despite recovery in demand for their goods. Productivity gains are reducing costs and improving competitiveness, but can also cut the numbers of workers required to produce the same or even higher levels of output.

Primary industries are projected to lose around 2.5 million jobs by 2020, slightly fewer than forecast in

2010. Many will be in agriculture, which is still a significant source of jobs in some countries and regions. Manufacturing was hit less hard by the recession than expected. The updated 2011 forecast of a loss of 1.5 million jobs in this sector by 2020 is lower than the figure of over 2 million job losses in the original 2010 forecast. This underlines the continuing importance of manufacturing to Europe's economy and indicates that some jobs are being saved, or relocated within rather than outside the EU (Figure 2).

Figure 2. Past and forecast employment changes by economic sector, EU-27+



However, the 2011 update is less optimistic about the number of jobs the service sector will create by 2020. This is partly due to austerity measures and cutbacks in public and private spending and investment.

Services are still expected to provide most job growth between now and 2020. Marketed services (services provided mainly by the private sector) are expected to be the fastest growing area. Business and other services, including banking and finance, are projected to see slightly slower job growth than previously thought, but are still expected to generate most new jobs, around 6 million for the period 2010-20.

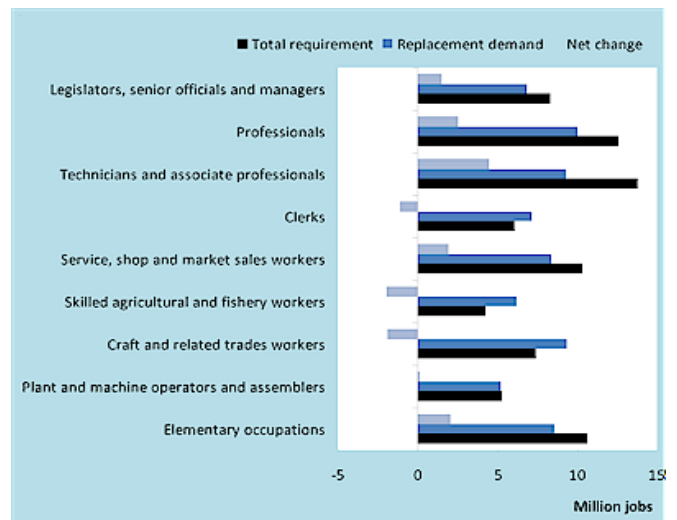
Significant increases in employment are also expected in the distribution and transport sector (including restaurants and hotels). Much more modest increases are now projected for non-marketed services (those often provided at subsidised cost and delivered mainly by the public sector or non-profit private organisations) which will bear the brunt of cuts in public expenditure.

Changing employment patterns in sectors naturally influence employment patterns for occupations and levels of qualification required. Most projected

increases in employment are concentrated in occupations such as management, professional and associate professional jobs. Around 8 million new jobs in these occupations are forecast by 2020. However, significant increases, around 2 million jobs, are also expected for other occupations in services such as sales, security, cleaning, catering and caring. Around 5 million job losses are projected for some skilled manual workers and clerks.

Although there will be more jobs for some occupations and fewer for others, there will be job openings for all types of occupations between now and 2020. This is due to a combination of expansion demand (net increases or decreases in employment by occupation) and replacement demand (job opportunities created by people moving to new jobs or retiring from the labour market). The number of job openings due to replacement demand will be much higher than those created by expansion demand (Figure 3).

Figure 3. Future job opportunities by occupation, EU-27+



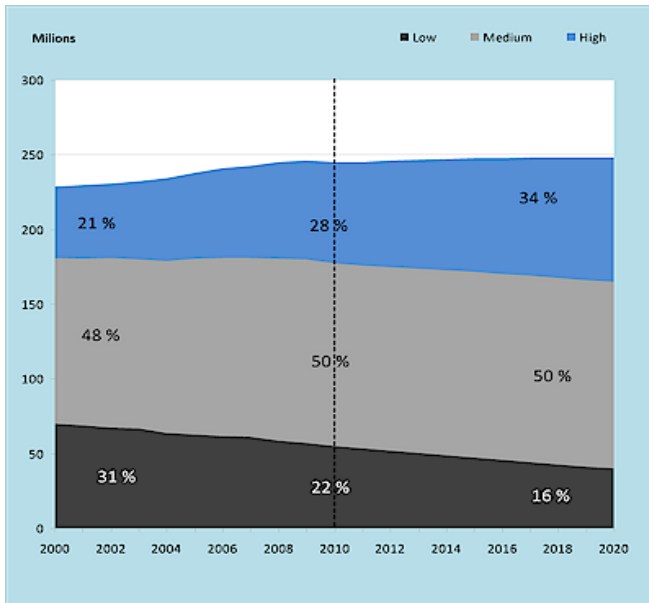
The 2011 update for sectors and occupations suggests that demand for skills, as measured by formal qualifications, will increase. Industry structure and skill-biased technological changes are increasing demand for people with high and intermediate-level qualifications.

Effect of the recession on skill supply

Future employment patterns will reflect not only demand, but also supply. The 2011 update is not radically different from the 2010 skill supply forecasts.

A clear rise in the proportions of the workforce with medium and high formal qualifications is still foreseen (Figure 4). The biggest increase will be the proportion of the workforce with the highest levels of qualification and the biggest fall the share of the workforce with no or low formal qualifications.

Figure 4. **Supply trends by qualifications (labour force aged 15-64), EU-27+**



However, the recession had some effect on labour supply. Many younger people chose to stay in education and training, while older people left the labour market as job opportunities dwindled. Despite this, the labour force actually grew slightly, contrary to the reduction forecast at the beginning of 2010.

Future labour supply projections depend on changes in demography, labour market participation and patterns of acquisition of qualifications. It remains to be seen how the recession will affect these. The long-term sustainability of more young people staying on in further training and higher education depends on various things, such as the state of public finances and individual perceptions of how much their job prospects are improved by continuing in education and training. At this point, most countries appear on track to meet targets agreed at European level for improving the qualification levels of their workforces.

Impact of migration on skill supply and demand

Migration, within as well as into and out of the EU, will increasingly influence the future size and composition

of the working population in Member States and has important implications for skill demand and supply.

Migration can influence a country's stock of skills in several ways, including the extent to which:

- qualifications held by immigrants gained in their own country of origin are downgraded in their new host country;
- problems over formal recognition and comparability of qualifications constrains migration;
- emigration causes shortages of highly-skilled labour in countries of origin;
- immigration creates skill mismatch in host countries.

Although other conclusions may emerge following further analysis, evidence so far suggests that none of these four issues have a significant impact on a country's skill mix ⁽³⁾. In the long term, immigrants with high qualifications eventually have them fully recognised in their host country, but the process may be lengthy. Barriers to formal recognition and comparability of qualifications are not widely seen as an obstacle to migration. The EU is working to reduce such obstacles to mobility for learning and working. However, migrants may face difficulties in practice, especially if they come from non-EU countries. There appears to be no significant negative impact of emigration on the supply of highly-skilled people in countries of origin and immigration does not appear to lead to skill mismatch in host countries ⁽⁴⁾.

Results for selected countries show that immigration generally raises the qualification level of the working population, but only to a small degree.

Policy scenarios

Alongside the 2011 baseline forecast, four scenarios were developed to consider the likely impact on the economy and employment of:

- **fiscal austerity:** government fiscal policies already announced;
- **economic uncertainty:** a fall in investment due to large-scale uncertainty over returns in the EU as a whole; and a fall in the value of the euro;

⁽³⁾ Data do not distinguish between legal or illegal, short or long-term migration, or between migration within or into and out of the EU.

⁽⁴⁾ Cedefop will publish a more detailed study on skill mismatch, immigrants and ethnic minorities in summer 2011.

- **retirement age:** higher participation rates by older workers due to the ageing population and government policies on official retirement ages;
- **ageing, health and pensions:** higher government spending on healthcare and pensions due to the ageing population.

The main employment effects of the different scenarios is summarised in Table 1. These can be quite complex. For example, fiscal austerity leads to

increases in private sector employment because, as a consequence, wages fall across the economy. In the short term, results indicate differences in aggregate employment rates across scenarios, particularly where confidence falls, for example, due to austerity measures or economic uncertainty.

Table 1. **Employment effects of four scenarios**

Scenario	Short-term	Long-term	
		Increases	Decreases
Fiscal austerity	Overall reduction	Private sector	Public sector
Economic uncertainty	Overall reduction	Most sectors, except investment goods	Investment good sectors
Retirement age	None	Most sectors	None
Ageing, health and pensions	Increase in health sectors	Health sectors	Most other sectors

Employment in sectors producing investment goods is the most vulnerable to general economic shocks, not least because investment is the most volatile component of GDP. This has particular skills implications as there are often specific skills associated with these sectors, such as engineering, motor vehicles and construction.

Throughout the recession public-sector employment was largely protected across most, but not all, of Europe. It now looks much more vulnerable due to public spending cuts. The exception is employment in the health sector, which, especially in the long term, is likely to increase by more than average because of continued growth in demand for health services.

In most scenarios there are job losses in some sectors. Workers will either need to move to other sectors, or leave the labour market. In the ageing health and pensions scenario, employment increases come largely by attracting workers from other sectors.

The scenarios do not have much impact on the size of the labour force, except for the retirement age scenario. In the short-term a larger and ageing labour force could lead to higher unemployment, but if labour markets adjust, long-term economic effects will be more beneficial.

The main message from the scenario results is that in the short term Europe is likely to see quite large falls in employment. It is uncertain whether the recession's impact on labour markets is finally over, or what the effects of the austerity measures governments are starting to implement will be.

Prospects are better for the longer term, but policies are needed to make employment transition between sectors easier. Wage rates need to adjust flexibly, and suitable retraining is needed to ensure workers have the skills to move. The forecasts assume this to be the case. If not, employment and skills outcomes could be significantly worse than those presented here.