

Developments in the youth labour market since the GFC

Geoff Gilfillan

Statistics and Mapping Section

Executive summary

Young people bore the brunt of softening in the labour market in Australia following the impact of the Global Financial Crisis (GFC). But there is evidence of a gradual improvement in youth labour market indicators in the 18 months from late 2014 to May 2016.

- ABS data shows the youth unemployment rate (for those aged 15 to 24 years) rose sharply from its most recent low of 8.7 per cent in March 2008 (in trend terms) to 11.9 per cent in May 2009. The unemployment rate then rose steadily to 13.9 per cent in September 2014 but has since fallen to 12.2 per cent in May 2016.

Young unemployed people account for a disproportionate share of total unemployment in Australia when compared with their share of the working age population.

- unemployed people aged 15 to 24 years accounted for 35.8 per cent of unemployed people aged 15 to 64 years in May 2016—almost double their share of the working age population (19.9 per cent) at this time.

One reason for the medium and long term decline in engagement in full-time employment of young people is their higher rates of participation in full-time education.

- over three quarters (78.0 per cent) of people aged 15 to 19 years were engaged in full-time education in May 2016 compared with 69.9 per cent in May 2008. A similar, but less pronounced, trend is observed for people aged 20 to 24 years with just under a third (31.9 per cent) engaged in full-time education in May 2016 compared with 28.5 per cent in May 2008.

Australia's youth unemployment rate is below the average for the Organisation of Economic Cooperation and Development (OECD) and lower than many comparable OECD countries.

- according to data compiled by the OECD, Australia had a youth unemployment rate of 13.3 per cent in 2014 (for people aged 15 to 24 years) which was below the OECD average of 15.0 per cent.

The rate of disengagement of young people—measured as the proportion that are neither engaged in employment, education nor training (or NEET rate)—climbed quickly from mid-2008.

- the rate of disengagement for people aged 15 to 19 years rose sharply from 6.8 per cent to 9.1 per cent in the 12 months to May 2009, from where it has gradually and progressively fallen to 5.9 per cent in May 2016.
- in contrast, the NEET rate for people aged 20 to 24 years shows less pronounced signs of slowing—increasing steadily from 11.5 per cent in May 2008 to 15.2 per cent in May 2013 before falling slightly to 14.2 per cent in May 2016.

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Notes on data use

The data used in this paper is drawn from Labour Force Survey (LFS) data produced by the Australian Bureau of Statistics (ABS). Trend data is used where available. Trend data combines the smoothing of a seasonal adjustment process (that removes the effects of regular or systematic calendar related patterns including seasonal variation) with other statistical techniques used to reduce the impact of irregular components.

Where only original data estimates are available, 12 month rolling averages are used to reduce month to month volatility.

Introduction

The state of the youth labour market receives considerable attention from social and economic policy makers, labour market economists, politicians and media commentators. One of the major reasons for the attention is the youth unemployment rate is consistently much higher than the unemployment rate reported in the media for the population aged 15 years plus.

The youth labour market differs from labour markets for other age groups for a number of reasons. The major difference is young people are in the formative stages of their development in terms of acquiring skills, human capital and employment experience. Young people are also much more likely to be new entrants to the labour market than older people. This makes them more susceptible to contractions in demand for labour associated with downturns in the economy and changes in the business cycle.

The youth labour market today is very different to the one that existed thirty years ago because a substantial (and growing) proportion of young people—particularly those aged 15 to 19 years—are engaged in full-time study. This limits the ability of this group to participate in the labour market in a full-time capacity. But there is evidence of more young people finding part-time employment which complements their study activities and also fits in with employer demands for a more flexible workforce.

Employers are influenced by a number of factors when making recruitment decisions including the skills and previous work experience of job applicants and the cost of labour. While young people in some occupations may be regarded by many employers as less productive than their older and more experienced counterparts, they have the advantage of being more attractive due to their lower wage rates commensurate with their less developed skills and experience.

More recent experience show that when there is a downturn in economic activity—for example, since the GFC of 2007 to 2009—employers are more likely to retain or “hoard” their more experienced and skilled staff

(presumably due to their higher productivity and despite their relatively higher wages) and are less likely to recruit staff who are less experienced and less skilled (but also less costly).¹

ABS data indicates that young people have experienced the greatest increase in labour shedding since the GFC compared with other age groups and were more likely to be affected by contraction in full-time employment opportunities. This paper:

- examines movement in unemployment rates and levels for young people relative to other age groups since the GFC started to impact on the labour market in mid-2008
- sheds light on whether young people have borne the brunt of weakness in the labour market since the GFC in terms of indicators such as employment growth (or loss) and labour force participation
- tracks changes in the proportion of young people that are neither engaged in employment, education or training (or NEET rate) since the GFC and
- examines where Australia's youth unemployment and NEET rates rank alongside other OECD countries.

Trends in the youth labour market since the GFC

University of Melbourne economist Jeff Borland highlighted that young people are more likely to be affected by cyclical events such as the GFC.

The main effect of an economic downturn is to slow the rate of inflows into employment. This is especially the case in the initial stages of a downturn or in a less severe downturn. At any point in time, the young, who are making the transition from education to work, account for a disproportionate share of job seekers. So when there is slowing growth in the rate of creation of new jobs, it is the young who are most adversely affected by the declining availability of new jobs.²

Figure 1 shows the composition of growth in the population for different age groups between July 2008 and May 2016 in terms of change in employment, unemployment and people not in the labour force.

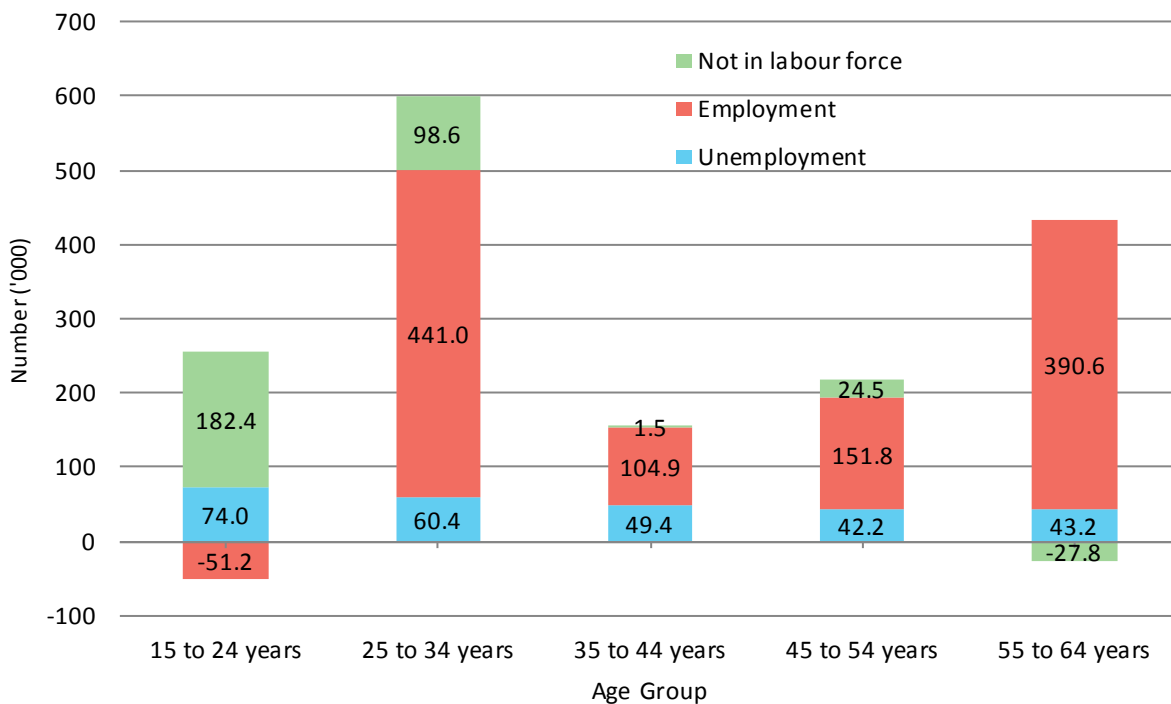
The chart shows employment growth was strongest for people aged 25 to 34 years and those aged 55 to 64 years (up by 441,000 and 390,600 respectively). Also of note are the increases in labour inactivity in the younger age groups as larger numbers either enrolled in full-time education or left the labour force for other reasons.

The chart also shows a decrease in labour market inactivity for people aged 55 to 64 years as more people either looked for work or delayed their retirement. Many of these changes are a reflection of demographic shifts with much larger population growth being recorded for those aged 25 to 34 years and 55 to 64 years compared with other age groups.

1. PN Junankar, '[The impact of the Global Financial Crisis on youth unemployment](#)', *The Economic and Labour Relations Review*, 26(2), 2015, pp. 191-217.

2. J Borland, '[The Australian labour market: The more things change ...](#)', *The Australian Economic Review*, 48(3), pp. 225-242.

Figure 1: Change in employment, unemployment and labour market inactivity by age—July 2008 to

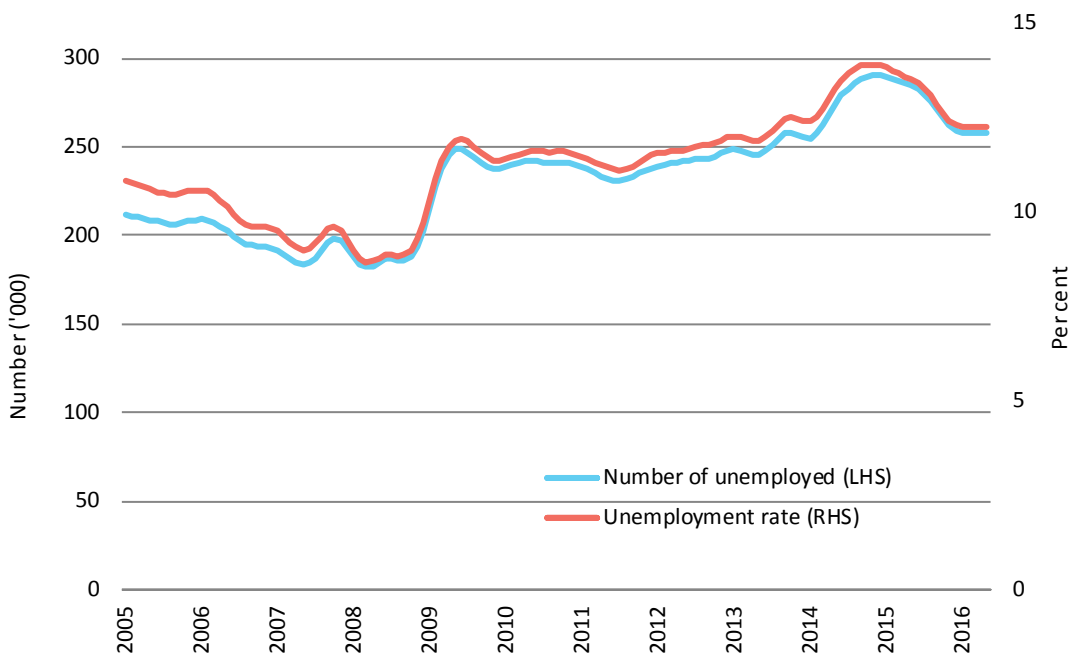


Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—12 month moving averages)

Unemployment

The labour market for youth aged 15 to 24 years deteriorated quickly and substantially after the onset of the GFC and has only recently shown signs of recovery. ABS data shows the unemployment rate for people aged 15 to 24 years rose sharply from its most recent low of 8.7 per cent (in trend terms) in March 2008 to 11.9 per cent in May 2009. The unemployment rate then rose more slowly to 13.9 per cent in September 2014 but has since fallen to 12.2 per cent in May 2016 (see Figure 2).

Figure 2: Unemployment rate and number of unemployed people aged 15 to 24 years

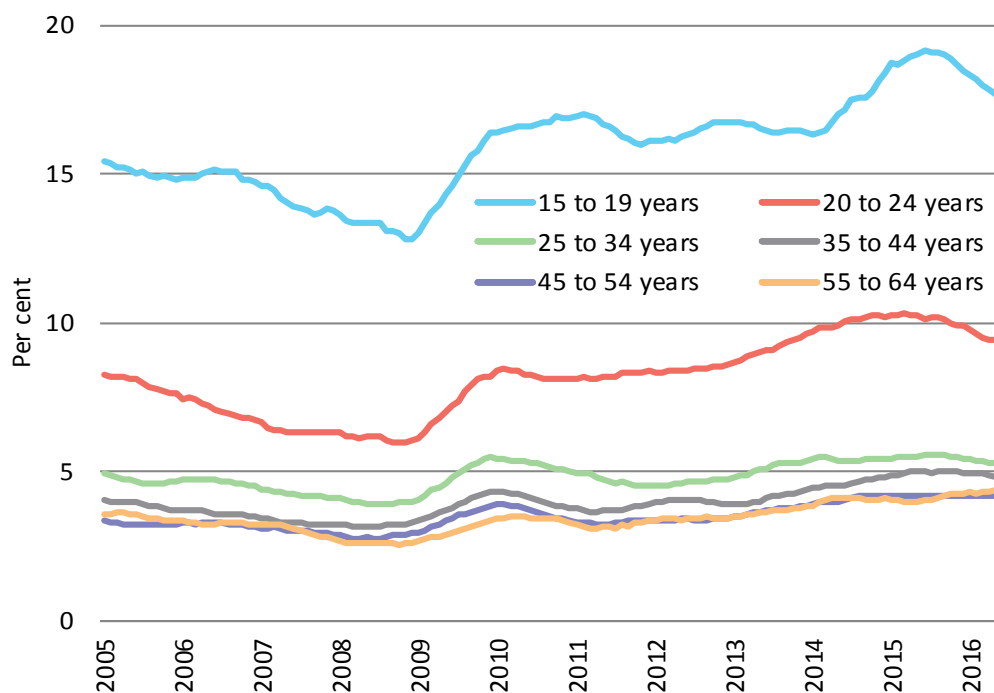


Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6202.0, Table 13 (trend data)

The number (or level) of unemployed young people shows similar movements—rising from its most recent low of 182,000 (in trend terms) in March 2008 to its most recent peak of 290,600 in December 2014—before falling steadily to 258,400 in May 2016 (see Figure 2).

Figure 3 shows a noticeable increase in the unemployment rate of people in the younger age groups since the GFC compared with more moderate increases in the unemployment rates of people in older age groups. An encouraging sign is the unemployment rates for people aged 15 to 19 years and 20 to 24 years have been falling since late 2014.

Figure 3: Unemployment rates by age



Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—12 month moving averages)

Figure 4 shows the largest increase in unemployed people by age group recorded between July 2008 and May 2016 was for those aged 15 to 24 years (up 74,000).

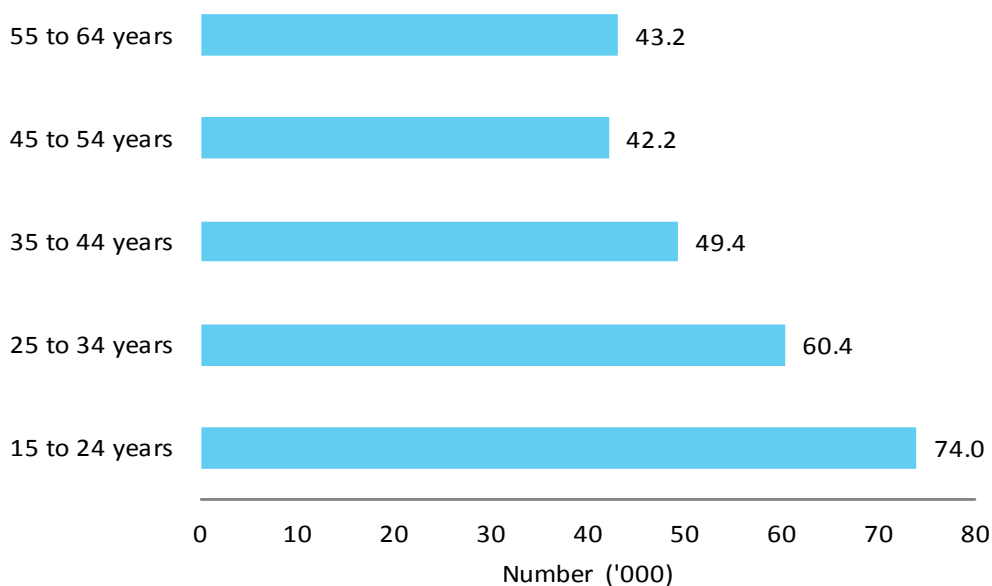
Unemployed people aged 15 to 24 years accounted for 35.8 per cent of all unemployed people aged 15 to 64 years in May 2016—almost double their share of the working age population of 19.9 per cent at this time.

Young people also have slightly higher retrenchment rates³ than people in other age groups with males aged 20 to 24 years having the highest retrenchment rate at 5.2 per cent in February 2013 followed by males aged 15 to 19 years at 4.1 per cent. The overall retrenchment rate at this time was 3.4 per cent.⁴

3. The number of persons retrenched in the previous 12 months as a percentage of all people who had been employed over the same period.

4. ABS, Australian Labour Market Statistics, July 2014, cat. no. 6105.0.

Figure 4: Change in number of unemployed people by age—July 2008 to May 2016

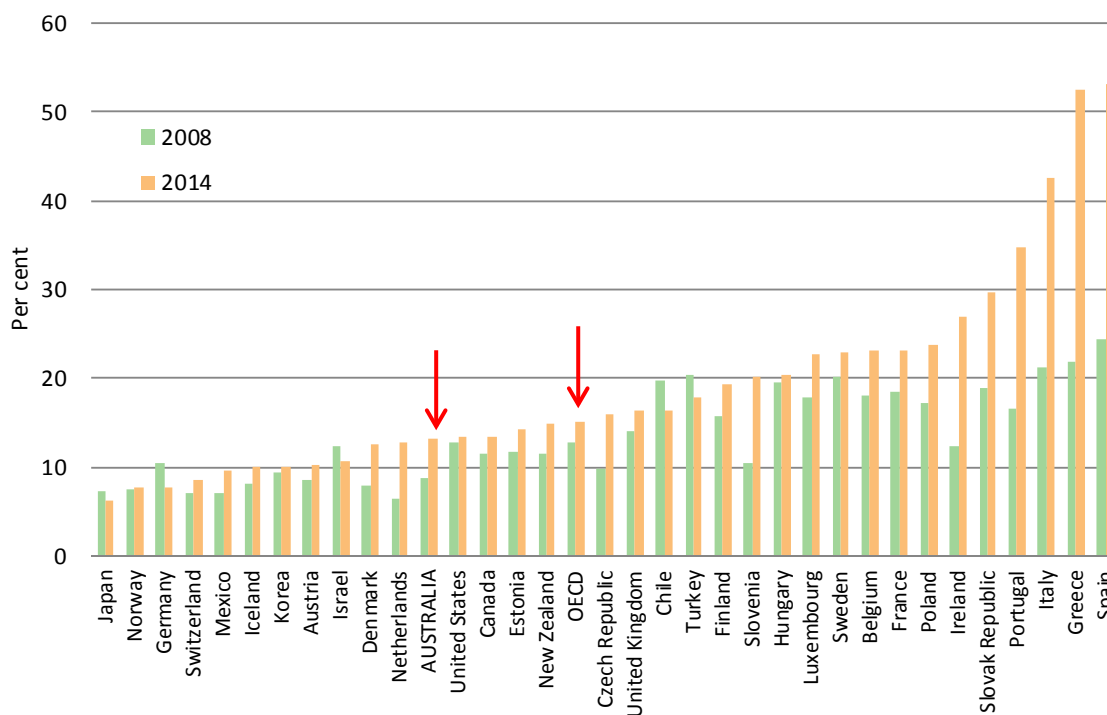


Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—12 month moving averages)

International youth unemployment rate comparisons

In 2014 Australia's youth unemployment rate of 13.3 per cent was lower than the OECD average of 15.0 per cent but comparable with rates recorded by the United States and Canada (13.4 per cent and 13.5 per cent respectively). Australia's youth unemployment rate was slightly lower than the rates recorded by New Zealand and the United Kingdom (15.0 per cent and 16.3 per cent respectively). Switzerland, Germany, Norway and Japan recorded rates below 10 per cent (see Figure 5).

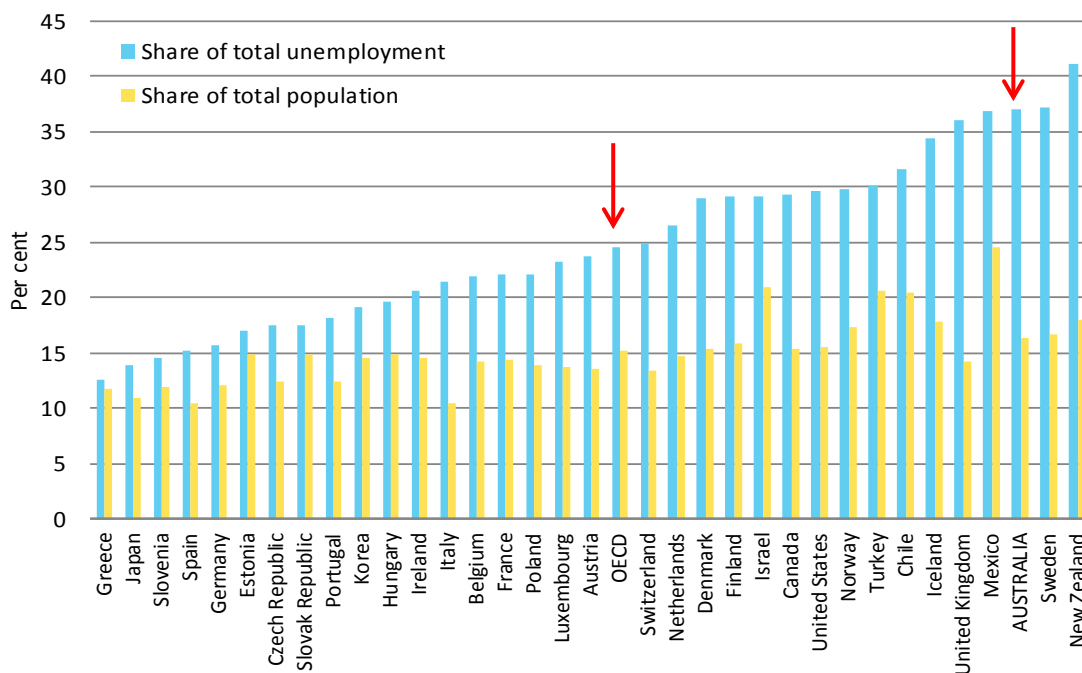
Figure 5: OECD youth (15 to 24 years) unemployment rates



Source: OECD Stats (extracted 30 June 2016)

While Australia was ranked in the bottom third of unemployment rates for the 34 OECD countries assessed, it had the third highest youth share of total unemployment in 2014 (at 37.0 per cent). By comparison, the youth share of the civilian population aged 15 years and over in Australia in 2014 was 16.4 per cent (see Figure 6).

Figure 6: Youth share of total unemployment and population



Source: OECD Stats (extracted 30 June 2016)

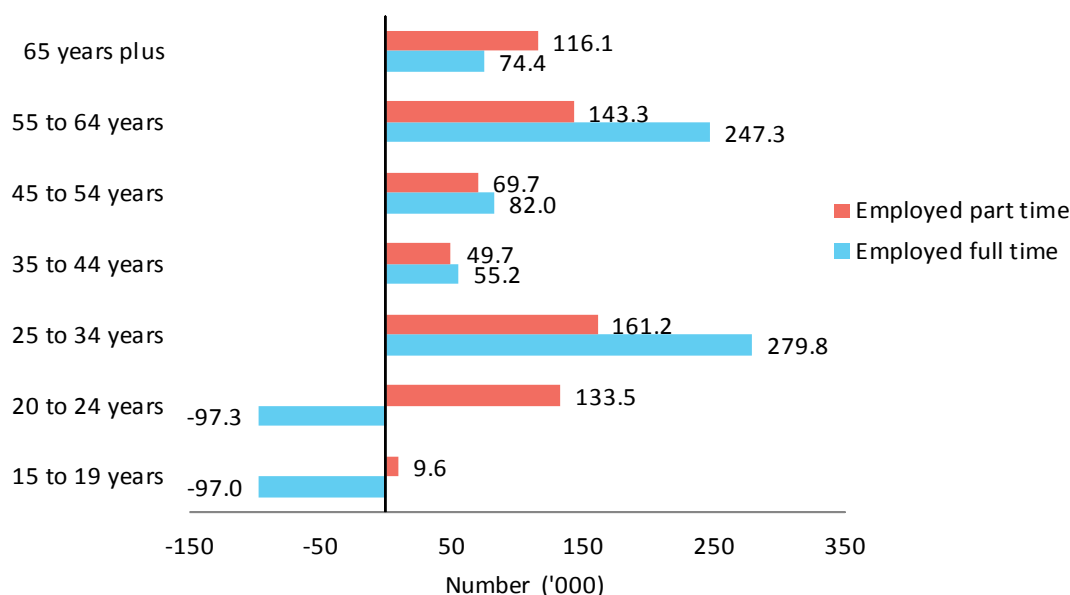
It is notable that countries such as Australia, the United Kingdom, Sweden and New Zealand all recorded disproportionately very large youth shares of total unemployment when compared with their youth shares of the total population.

Employment

Young people aged 15 to 19 years were the only group to experience employment loss after the GFC started to take effect in mid-2008. Employment for people aged 15 to 19 years fell by 87,400 (using a 12 month rolling average of original data) between July 2008 and May 2016 (Figure 7).

Employment for people aged 20 to 24 years grew marginally by 36,200—due to strong growth in part-time employment offsetting a decline in full-time employment. Between July 2008 and May 2016 full-time employment for people aged 15 to 19 years and 20 to 24 years fell by 97,000 and 97,300 respectively.

Figure 7: Change in full and part-time employment by age group—July 2008 to March 2016

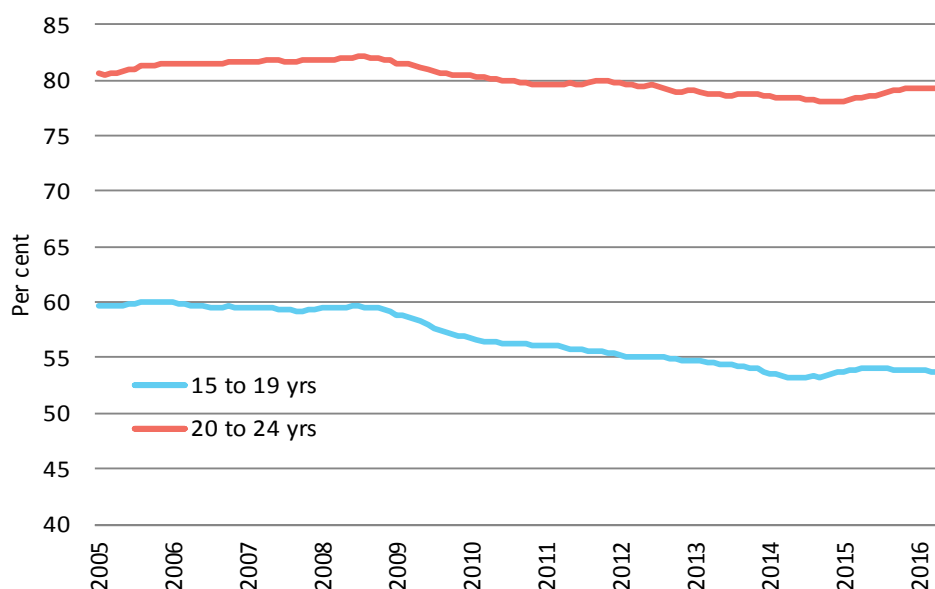


Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—12 month moving averages)

Labour force participation

The labour force participation rate of young people fell steadily from mid-2008 but has recovered slightly since mid to late 2014. The labour force participation rate of people aged 15 to 19 years fell from 59.7 per cent in July 2008 to 53.2 per cent in May 2014 before recovering slightly to 53.8 per cent in May 2016 (using a 12 month moving average of original data). The labour force participation rate of people aged 20 to 24 years behaved in a similar manner—falling from 82.1 per cent in July 2008 to 78.0 per cent in November 2014 before gradually increasing to 79.3 per cent in May 2016 (see Figure 8).

Figure 8: Australian youth labour force participation rates

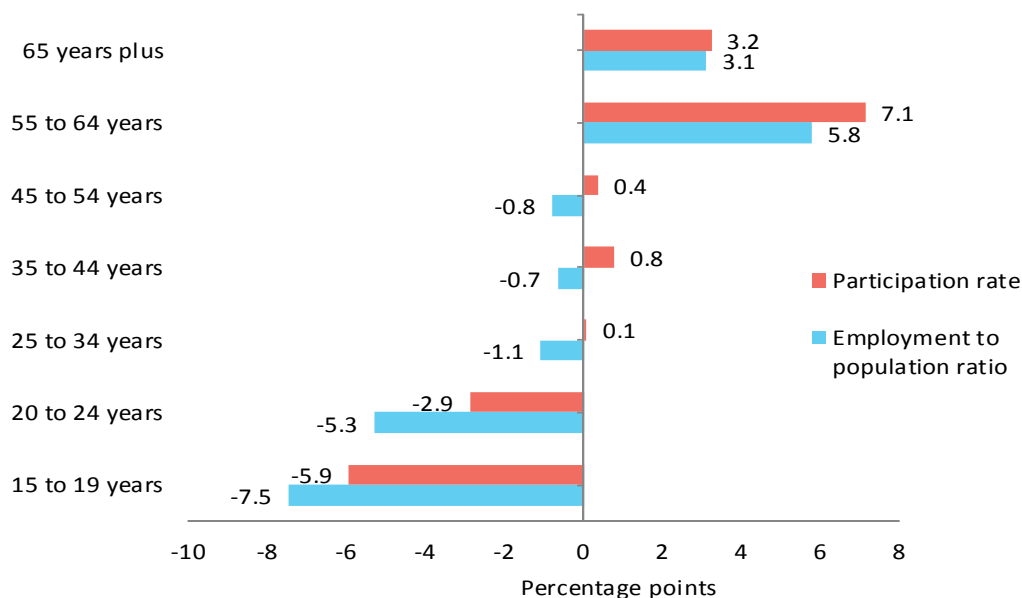


Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—12 month moving averages)

Between July 2008 and May 2016 younger people experienced significant falls in their labour force participation rate and employment to population ratios. In contrast, people aged between 25 and 54 years enjoyed relative stability in these measures, while people aged 55 years and over recorded significant increases (Figure 9).

Strong growth in the employment to population ratio for those aged 55 to 64 years could be driven by supply factors such as decisions by many older people to delay retirement due to the negative impact of the GFC on superannuation balances.

Figure 9: Change in participation rates and employment to population ratios by age—July 2008 to May 2016



Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—12 month moving averages)

Underemployment

The underemployment ratio of young people (or the proportion of employed people who would prefer more hours of work) is consistently much higher than rates recorded for other age groups. While underemployment ratios for people in older age groups grew marginally after July 2008, the increase for the younger age group was much more pronounced. The underemployment ratio of people aged 15 to 24 years rose quickly from 11.9 per cent (in trend terms) in May 2008 to 16.6 per cent in August 2009. The rate increased more steadily to 20.1 per cent in May 2015 before falling slightly to 19.4 per cent in May 2016 (See Figure 10).

A number of studies have examined the reasons why some groups are more likely to be underutilised than others. Supply factors associated with lower rates of labour force utilisation included level of educational attainment, gender, marital status, ethnic background and Indigenous status. Of these factors lack of educational attainment had one of the strongest associations with negative labour market outcomes.⁵

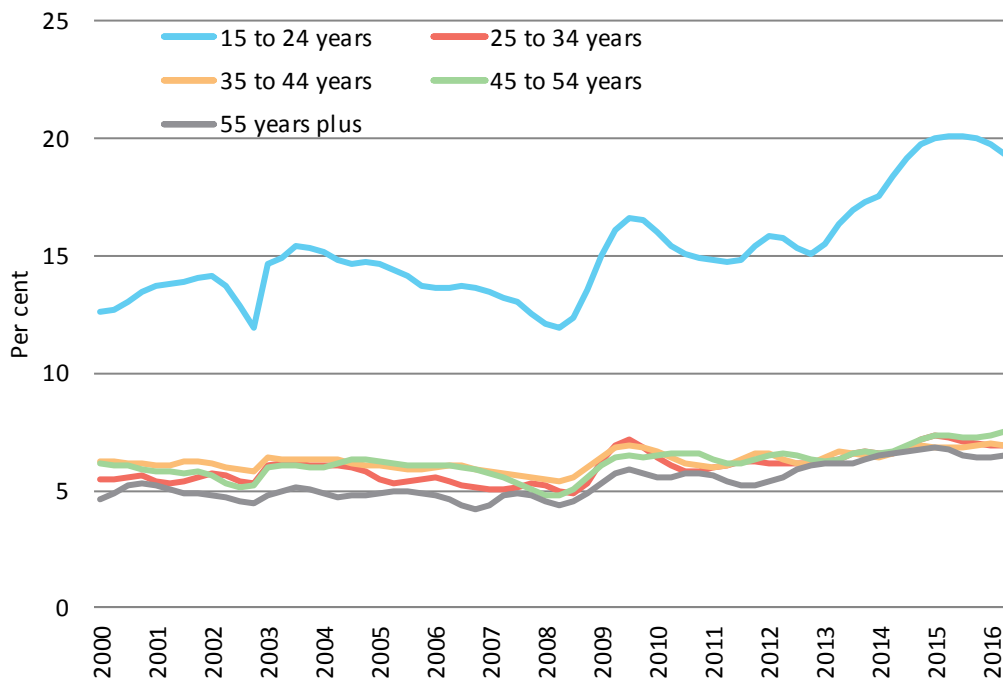
The Melbourne Institute’s Mark Wooden found that age, gender and ethnic background were strongly associated with higher rates of detachment, and people working in less skilled occupations were also more likely to be underutilised.⁶ Scott Baum and William Mitchell found that greater educational attainment increased the likelihood of individuals being adequately employed and reduced the risk of unemployment. Greater labour market experience—as measured by years in paid employment—decreases the likelihood of both being unemployed and underemployed.⁷

5. S Baum and W Mitchell, [‘Adequate employment, underutilisation and unemployment: an analysis of labour force outcomes for Australian youth’](#), *Australian Journal of Labour Economics*, 11(3), pp. 187–201.

6. M Wooden, ‘Underemployment in Australia’, *Labour Economics and Productivity*, 5(2), September 1993, pp. 95–110.

7. Baum and Mitchell, op. cit., p. 197.

Figure 10: Underemployment ratio by age—February 2000 to May 2016

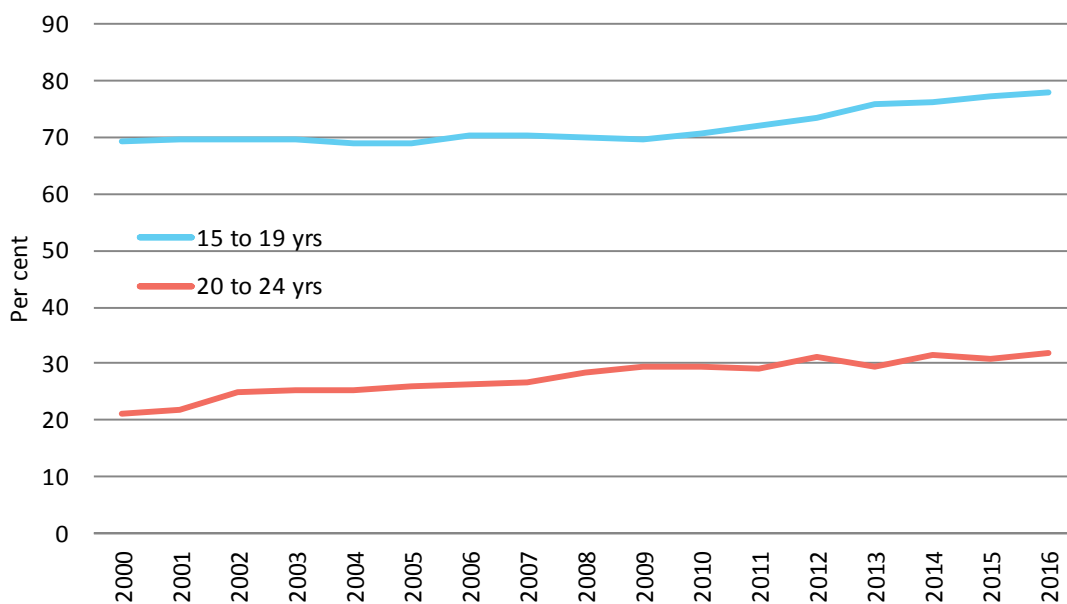


Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, Cat. 6202.0, Table 22, (trend quarterly data)

Participation in full-time education

Part of the reason for the large increase in labour market inactivity for those aged 15 to 19 years since the GFC is their greater rates of participation in full-time education—perhaps in response to a deteriorating labour market. Just over three quarters (78.0 per cent) of people aged 15 to 19 years were engaged in full-time education in May 2016 compared with 69.9 per cent in May 2008. Similar trends were observed for people aged 20 to 24 years, though the increase was not as pronounced (See Figure 11).

Figure 11: Percentage of young people engaged in full-time education—May 2000 to May 2016



Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM3 (original data for May of each year)

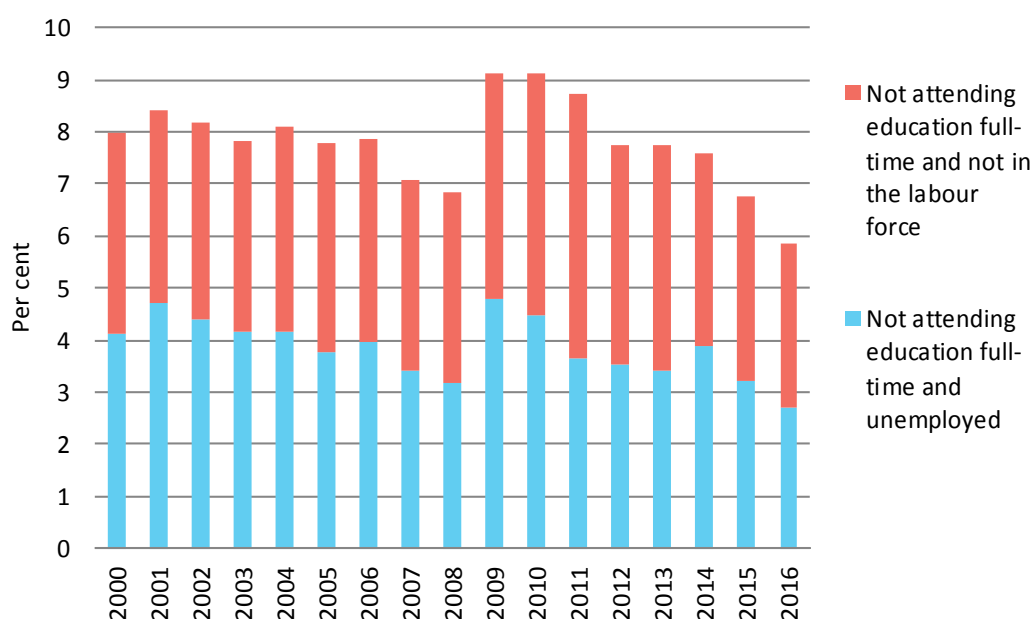
An alternative measure of youth disengagement

Unemployment rates of young people can be misleading—particularly for those aged 15 to 19 years—as a substantial proportion of those young people reporting they are unemployed are also engaged in full-time education. For example, ABS Labour Force Survey data shows just under 70 per cent of people aged 15 to 19 years who reported they were unemployed in May 2016 were engaged in full-time education.

Perhaps a better indicator for policy makers to gauge the extent of youth disengagement is the proportion of young people who are not engaged in employment, education or training (NEET).

Figure 12 shows the composition of the NEET rate in terms of the proportion of young people who were not attending education full-time and unemployed (shown in blue), and the proportion neither attending education full-time nor in the labour force (shown in red). The NEET rate is the sum of the red and blue bars shown in the chart. The NEET rate for those aged 15 to 19 years rose sharply from 6.8 per cent in May 2008 to 9.1 per cent in May 2009 but has since fallen steadily to 5.9 per cent in May 2016.

Figure 12: NEET rate for people aged 15 to 19 years—May 2000 to May 2016



Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—May of each year)

The proportion of all youth aged 15 to 19 years who report they are not attending education full-time and are also unemployed declined from 4.8 per cent in May 2009 to 2.7 per cent in May 2016. During the same period, the proportion of this group reporting they are neither in full-time education nor in the labour force fell from 4.3 per cent to 3.2 per cent.

A number of factors may have contributed to the decline in the NEET rate for this age group including:

- the impact of a discouraged worker effect—where a higher proportion decide to engage in full-time education (and not look for work) in response to declining job prospects
- perceptions by young people that they need to complete Year 12 and possibly post-secondary education in order to be competitive in the job market
- changes to state and territory government legislative requirements for young people to stay in school longer or be engaged in some form of training (also known as Learn or Earn)⁸, and
- making entitlements to Youth Allowance for people aged up to 17 years contingent upon participation in education or training.⁹

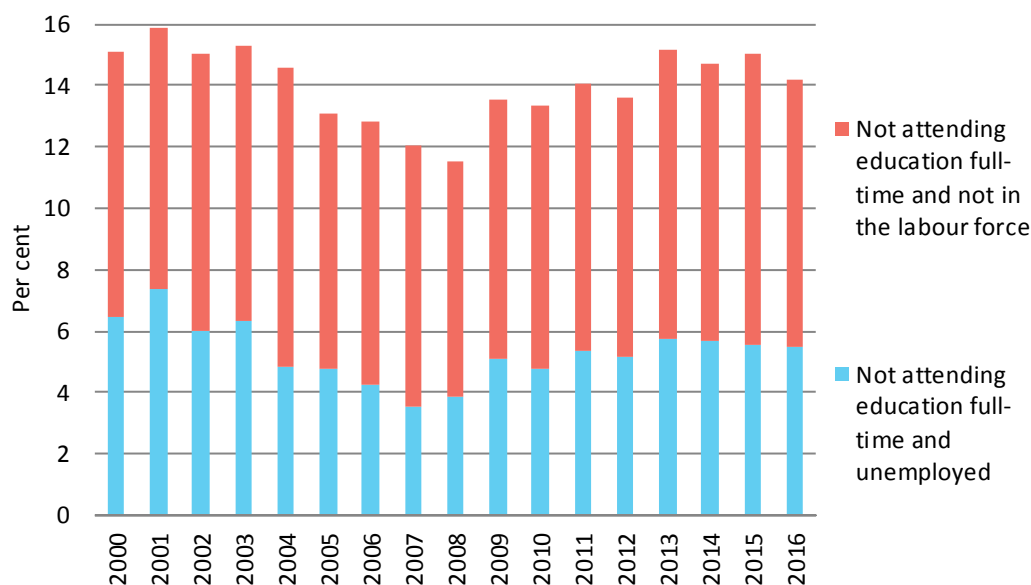
8. While most state and territory governments had introduced legislation for young people to stay in school or training up to the age of 17 years by 2009 the law did not take effect in New South Wales and the ACT until 1 January 2010.

9. N Lammam, *Beyond learn or earn*, Australian Youth Affairs Coalition (AYAC), Sydney, November 2012.

A number of policies have been implemented by state and territory governments to encourage greater rates of participation by young people in education. The COAG National Partnership on Youth Attainment and Transitions set a number of goals including raising Year 12 completion rates, ensuring all school students remain in school until they complete Year 10, and increasing the proportion of young people aged 15 to 25 years participating in either study, training or employment. Entitlement to the Youth Allowance for people up to the age of 17 years was also tied to participation requirements in education and training.¹⁰

The NEET rate for those aged 20 to 24 years rose more steadily from 11.5 per cent in May 2008 to 15.2 per cent in May 2013 but has since only fallen marginally to 14.2 per cent in May 2016 (see Figure 13).

Figure 13: NEET rate for people aged 20 to 24 years—May 2000 to May 2016



Source: Australian Bureau of Statistics (ABS), *Labour Force Survey*, cat. no. 6291.0.55.001, LM1 (original data—May of each year)

Unlike the NEET rate for the younger age group, the NEET rate for people aged 20 to 24 years in 2016 is still well above the rate recorded in May 2008.

People in this age group may have barriers preventing them from looking for work, such as involvement in child caring responsibilities, while a small proportion have a long-term health condition or disability. Others are engaged in full-time education or are travelling overseas while some may choose to engage in home duties.¹¹ Young females who are disengaged are more likely to report they are not in the labour force while disengaged young males are more likely to report they are unemployed.¹²

International NEET rate comparisons

In 2014 Australia had the 11th highest NEET rate for people aged 15 to 19 years out of the 28 OECD countries that provided data. Australia recorded the same NEET rate (7.2 per cent) as the OECD average for this age group (see Figure 14). Australian women in this age group had a slightly lower NEET rate than Australian men (6.8 per cent compared with 7.6 per cent).

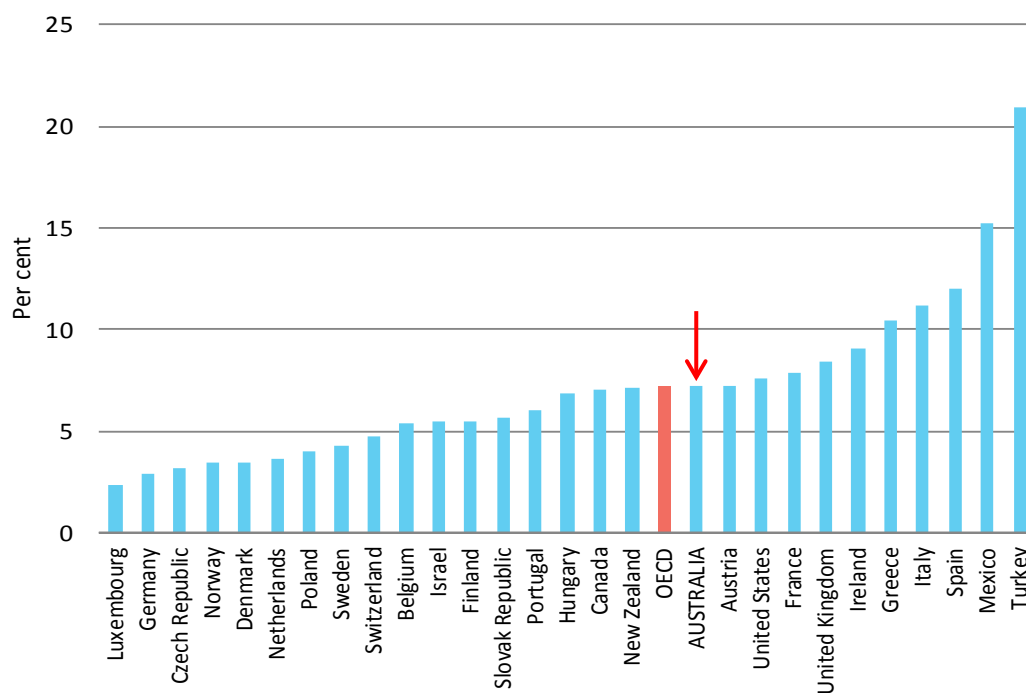
Australia's NEET rate for people aged 15 to 19 years was similar to the rates for countries such as Canada, New Zealand and the United States. In contrast, NEET rates for Germany, Norway and the Netherlands were almost half the rate recorded for Australia.

10. N Lamas, *Beyond learn or earn*, Australian Youth Affairs Coalition (AYAC), Sydney, November 2012.

11. ABS, *Persons Not In the Labour Force, Underemployed Workers and Job Search Experience, Australia, February 2014*, cat. no. 6226.0.55.001.

12. OECD, *Education at a glance 2015: OECD indicators*, OECD Publishing, Paris, 2015.

Figure 14: OECD NEET rates for people aged 15 to 19 years—2014



Source: OECD, *Education at a glance 2015: OECD indicators*, OECD Publishing, Paris, 2015.

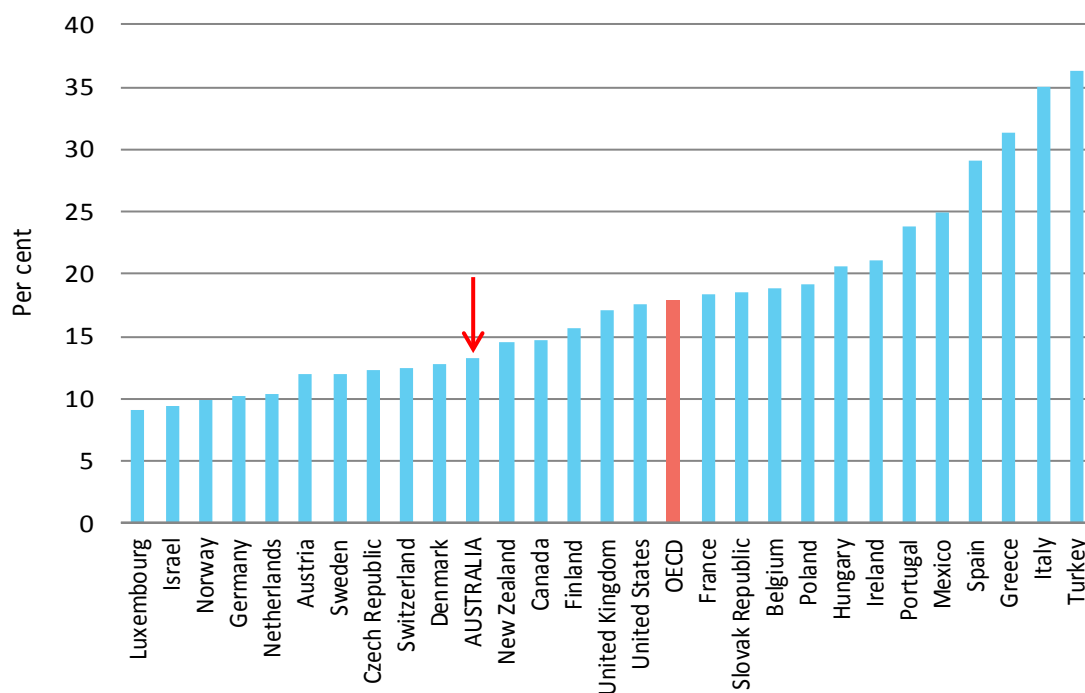
Australia had the 11th lowest NEET rate (13.2 per cent) for those aged 20 to 24 years out of 28 OECD countries that provided data. The OECD average NEET rate for this age group was 17.9 per cent.¹³

Australian men in this age group had a NEET rate of 11.7 per cent in 2014 while Australian women had a rate of 14.9 per cent. OECD data show 10.7 per cent of Australian women aged 20 to 24 years were neither engaged in full-time education nor in the labour force compared with 5.4 per cent of men in this age group. A higher proportion of Australian men aged 20 to 24 years were not in full-time education and unemployed (6.2 per cent) compared with women in this age group (4.1 per cent).

Spain, Greece and Italy had much higher NEET rates for this age group in 2014 while Germany, Norway and the Netherlands recorded much lower rates (see Figure 15).

13. OECD average excludes Japan.

Figure 15: OECD NEET rate for people aged 20 to 24 years—2014



Source: [Education at a glance 2015: OECD indicators](#), OECD Publishing, Paris, 2015.

Conclusion

ABS data shows young Australians were far more likely than other age groups to experience losses in full-time employment, and stronger growth in rates of unemployment and underemployment in the aftermath of the GFC.

Young people have a disproportionately large share of total unemployment when compared with their share of the working age population.

Employers are more likely to retain or “hoard” their most experienced and skilled staff when economic activity slows in order to retain firm-specific human capital and appear more reluctant to offer employment opportunities to younger inexperienced jobseekers.

There is evidence of increasing rates of attendance in full-time education among the younger age group (15 to 19 years) since mid-2008—perhaps in response to a softening labour market—as well as statutory requirements to attend school to an older age.

In contrast to the younger age group, the rate of disengagement from employment, education and training for those aged 20 to 24 years is still above the rate recorded in mid-2008.

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