



Work audit

**GETTING THE
MEASURE OF YOUTH
UNEMPLOYMENT**

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Introduction

Those of us who are sometimes asked to comment publicly on the state of the labour market will be familiar with the especially daunting task of having to make sense of data you haven't actually seen. Sitting in a television or radio studio at 9:30am on the day the Office for National Statistics (ONS) issues its monthly release of labour market statistics is a particular challenge.

However, assessing the state of the labour market is not necessarily that straightforward even when one has all the stats. Available data are almost always open to different interpretations. For example, figures showing that unemployment has increased or decreased in a particular month or quarter only really make sense when considered alongside corresponding figures for changes in employment or in the number of people participating in the jobs market during the same period.

A fall in unemployment is always welcome. But it might not convey such good news if associated with a fall in employment and more jobless people simply opting out of looking for work. And even if a fall in unemployment is due to more people in work, it's also important to know whether new jobs are full-time, part-time or temporary positions, and in particular, if they are fulfilling the aspirations of those taking them.

Moreover, offering a meaningful narrative of what's happening in the labour market is complicated by measurement issues. This is in part due to statistical definition. Statisticians have spent years agreeing on common international standards for defining whether a person should be categorised as 'employed', 'unemployed', or neither (i.e. so-called 'economically inactive').

Such definition is clearly sensible, not least because it enables better cross-country comparison of labour market performance. When it comes to other types of comparison, such as movements in a data series over time, statisticians also wisely caution against comparing data within a consistent time series with data for the same subject drawn from earlier series.

Yet while accepting the merit of statistical method, it is important to ensure that matters of definition and data restriction are fully appreciated and accounted for in the popular presentation of labour market statistics. If not, published statistics will not only fail to enhance public understanding of the state of the labour market but also – and especially where channelled through the popular media – run the risk of distorting debate on policy solutions to labour market problems.

This Work Audit considers how interpretation of currently available official statistics shapes public perception of youth unemployment, a subject which has emerged as one of the most talked about economic and social problems since the start of the recession in 2008.

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Youth unemployment in perspective

According to the ONS's quarterly Labour Force Survey (LFS) 965,000 young people (defined as those aged 16–24) were unemployed in the final quarter (October–December) of 2010. 1 in 5 people (20.5%) in this age group who were in the labour market were jobless, available for work and actively seeking work (i.e. unemployed on the agreed International Labour Organisation (ILO) definition). The unemployment rate for 16–17 year olds was 37.7% and for 18–24 year olds 18.1%. The overall youth unemployment rate for 16–24 year olds was 6.6 percentage points higher than at the start of the recession in the spring quarter (March–May) of 2008.

The ONS notes that both the number of ILO unemployed youths and the rate of ILO youth unemployment at that time was 'the highest figure since comparable records began in 1992'. This has given rise to understandable and justifiable public concern, which will undoubtedly ratchet up if and when the level of youth unemployment rises above 1 million.

There is a common and correct perception that young people have been relatively adversely affected by the recession as employers have preferred to retain experienced prime age and older workers, thereby limiting opportunities for those entering the jobs market. References to 'a lost generation' of young people, denied an initial foothold in employment and scarred for life in terms of later job and earnings prospects, are commonplace. But is the situation really as unprecedentedly bad as the headline figures suggest?

Unfortunately, lack of consistent data prior to 1992 prevents direct comparison with earlier periods, especially the early 1980s, when concern about youth unemployment was just as great as it is today. Despite this, however, one can get some sense of perspective by reminding ourselves about certain well-known characteristics of youth unemployment.

First, the youth unemployment rate is always higher (usually around twice as high) than aggregate unemployment. Young people exhibit high rates of labour turnover and tend to move in and out of jobs before settling down in the labour market. As a result they also have a higher than average rate of short-term frictional

unemployment and a relatively low rate of long-term unemployment. Secondly, youth unemployment is ultra sensitive to the economic cycle, rising relatively quickly during recessions when there are fewer entry level job vacancies and when employers cut their least experienced or least productive staff, but falling relatively quickly during periods of economic recovery.

The fact that we have seen both relatively high and relatively fast rising youth unemployment in recent hard economic times is therefore unremarkable. Nonetheless things do on the face of things appear worse than usual at present, with the youth unemployment rate 2.5 times higher than the average rate of unemployment (7.9%). However, closer examination of the measurement of youth unemployment offers a somewhat different conclusion.

The shrinking youth labour supply effect

The relative scale of youth unemployment is only properly understood in the context of consideration of the transformation of the youth labour market in recent decades resulting from greatly increased participation in post-16 education. This has had the effect of reducing the proportion of the 16–24 year age cohort active in the labour market, thereby raising the measured youth unemployment rate for any given level of unemployment.

In 1992 almost three-quarters (75.4%) of the age cohort were active in the labour market (i.e. either employed or unemployed on the ILO definition). At the end of 2010 the equivalent proportion was 64.2%. The active share of 16–17 year olds was just 37%.

Both the youth cohort and the number unemployed were larger in 2010 than in 1992 (table 1). But while the difference between the proportions of the cohort who were unemployed was 1.1 percentage points (12% in 1992 and 13.1% in 2010) the difference in the unemployment rate was much larger at 4.4 percentage points (16.1% in 1992 and 20.5% in 2010). In other words, as the economically active supply of young people shrinks relative to the number of young people in the population the youth unemployment rate magnifies the scale of youth unemployment.

If one focuses on the impact of the recession, looking at youth unemployment relative to an expanding youth

cohort, rather than relative to a contracting active supply of youth labour, shows what we know has been a marked deterioration in the employment situation facing young people. However, the 3.8 percentage point deterioration (from 9.3% in spring 2008 to 13.1% in 2010) is much less than that implied by the corresponding rise in the youth unemployment rate.

The 'unemployed' student effect

The measurement of youth unemployment is also affected by the categorisation of young people in full-time education who are available and looking for work and thus counted as ILO unemployed rather than economically inactive. In the final quarter of 2010 there were 274,000 young people aged 16–24 in this category, accounting for 28.4% of total youth unemployment (table 2). The trend toward increased participation in full-time education has raised this proportion significantly over time – in 1992 the figure was 9.2%.

The inclusion of full-time student jobseekers raises the measured level as well as the measured rate of youth unemployment. Although perhaps counter-intuitive there is a perfectly sensible economic rationale for their inclusion. All jobseekers form part of the effective labour supply and therefore have some influence on the degree of wage pressure in the labour market. However, the inclusion of full-time student jobseekers in the unemployment measure does once again magnify youth unemployment as an indicator of social distress. Excluding them lowers the headline youth unemployment rate for 16–24 year olds in the final quarter of 2010 from 20.5% to 15.5% and lowers youth unemployment as a proportion of the 16–24 age cohort to 9.4%.

Why not measure NEETs instead?

Given the evident scope for misinterpreting the youth unemployment measure it can be argued that a better indicator of the social distress experienced by young people is provided by figures for NEETs (i.e. people not in employment, education or training). These are published quarterly for England by the Department for Education and (those taken from the LFS) show that 938,000 16–24 year olds were NEET in the final quarter of 2010 (table 3). The CIPD estimates that the figure for the UK as a whole is close to 1.2 million.

The NEET rate at the end of 2010 was 15.6% – 2.5 percentage points higher than at the start of the recession – though this figure is not directly comparable with youth unemployment on the ILO definition since typically only around half the NEET group at any time is available for, or seeking work. Ten percent are parents or pregnant, 6% gap year students, 4% in custody, with most of the remainder also out of the labour market but unclassified.

If translated into a measure of youth unemployment the NEET statistics would suggest that the effective youth unemployment rate is as low as 8%. However, if one wanted to use the NEET statistics to derive a measure of youth labour market distress (rather than simply youth unemployment or broader social distress suffered by young people) it would be necessary to add the number of NEETs active in the labour market to the number of NEETs not available for, or actively seeking work who tell the LFS that they want to work.

The CIPD estimates that this 'want work' measure of youth labour market distress would currently be around 13% of the 16–24 year old age cohort. The youth labour market distress measure might also be expanded to include young people working in part-time or temporary employment unable to find full-time or permanent employment. The CIPD estimates that this broader youth labour market distress measure would be around 16% of the 16–24 year old age cohort.

Broad policy implications

The conclusion that 1 in 8 young people are unemployed rather than the frequently cited but misleading figure of 1 in 5 provides no comfort to those without work. But a more realistic picture of the scale of the problem does help move the policy narrative beyond the simplistic 'lost generation' rhetoric. The CIPD thus recommends that the ONS and Department for Work and Pensions (DWP) publish a joint statement on the measurement of youth unemployment highlighting issues akin to those discussed in this Work Audit. This would help establish a better informed policy narrative on causes of, and solutions to, the problem.

The UK clearly has a serious youth unemployment problem but severe difficulty is being felt by only a relative minority of young people and the current situation is not worse than ever experienced before.

Much of the cyclical component of youth unemployment – in particular that for skilled young people and graduates – will as normal fall quite rapidly once the economy and labour market stage a strong recovery. Outflow rates from youth unemployment are already relatively high and as usual the proportion of young people who are long-term unemployed is much lower (around 30%) than that for older unemployed people. As the CIPD noted last year, people aged under-25 accounted for two-thirds of the net new jobs created when the economy and employment surged ahead between the second and third quarters of 2010.

Beyond ensuring that fiscal and monetary policy are conducive to growth and job generation the principle policy focus should be on how best to reduce the underlying structural youth unemployment rate which is probably close to the 9%–10% rate observed prior to the recession and is likely to persist even when the demand for labour eventually picks up.

Especially worrying in this respect is the related observation that this structural problem is not only far worse than desirable but itself appears to have had been getting worse for a few years prior to the recession, suggesting that either the employability of the core youth jobless is deficient and/or that the cost of employing them is too high relative to their labour market value. This implies the need for faster progress on vocational skills and welfare policy, a thorough review of the effect of the national minimum wage on youth employment and an assessment of the case for reducing national insurance contributions for employers hiring young people with limited skills.

This Work Audit expands on observations made by the author in his closing keynote speech to the ONS Labour Market Statistics conference, BIS Conference Centre, London, 2 March 2011.

Table 1: Labour market status of young people aged 16–24, 1992, 2008 and 2010, (thousands, seasonally adjusted).

| | 1992 (%) | 2008 (%) | 2010 (%) |
|-------------------------|------------|-------------|-------------|
| Cohort | 7161 (100) | 7297 (100) | 7342 (100) |
| In employment | 4481 (63) | 4242 (58.2) | 3752 (51.2) |
| Unemployed | 860 (12) | 680 (9.3) | 965 (13.1) |
| Economically inactive | 1820 (25) | 2375 (32.5) | 2625 (35.7) |
| Youth unemployment rate | (16.1) | (13.9) | (20.5) |

Source: ONS, LFS

Note: figures for 1992 and 2008 refer to the March–May quarter, figures for 2010 refer to the October–December quarter

Table 2: Total unemployed and full-time student unemployed, 16–24, 1992, 2008, and 2010, UK, (thousands, seasonally adjusted).

| | 1992 (%) | 2008 (%) | 2010 (%) |
|----------------------------------|----------|----------|----------|
| 16–24 Unemployed | 860 | 680 | 965 |
| 16–24 F-T students unemployed | 79 | 189 | 274 |
| F-T students as % unemployed | (9.2) | (27.7) | (28.4) |
| Unemployment rate minus students | (14.8) | (10.4) | (15.5) |
| Cohort proportion minus students | (10.9) | (6.7) | (9.4) |

Source: ONS, LFS

Table 3: NEETs, England (thousands) and % Q4 2007–2010.

| | NEET | NEET (%) |
|------|------|----------|
| 2007 | 781 | (13.1) |
| 2008 | 854 | (14.2) |
| 2009 | 895 | (14.8) |
| 2010 | 938 | (15.6) |

Source: DfE, LFS



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