World Economic Situation and Prospects

Weekly Highlight

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Long-term unemployment in Europe

Since the onset of the Great Recession, unemployment has increased dramatically in the European Union—from 7.1 per cent of the labour force in 2008 to 11.0 per cent in 2013. Unemployment has been above 9.0 per cent since 2009, and the World Economic Situation and Prospects 2014 mid-year update projects that it will remain above 10.0 per cent throughout 2015.

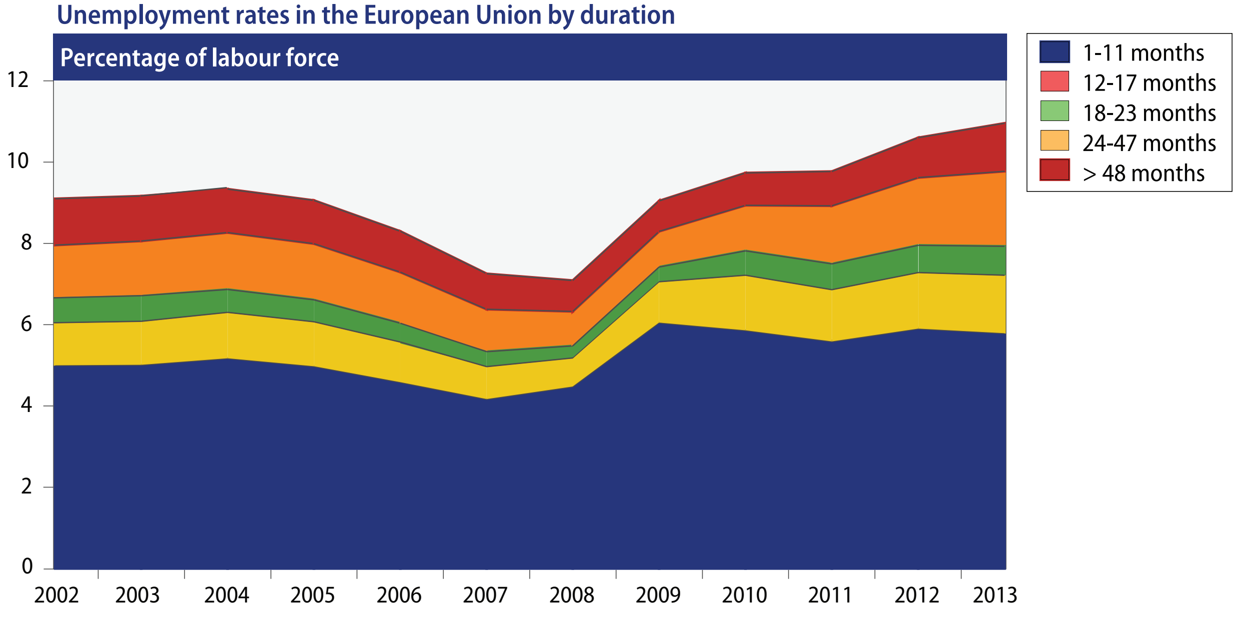
Such a long period of high unemployment makes it likely that many workers will transition to the category of long-term unemployed, typically defined as having been unemployed for 12 months or more. This raises additional issues. The long-term unemployed have far more difficulty in finding employment, as their skills may have deteriorated and employers may view them less favourably. Some of these workers will eventually transition to discouraged worker status, meaning that they would still like to work but they no longer actively seek employment. As such, they are no longer part of the labour force. Other problems associated with long-term unemployment are that these workers have a weaker connection to the labour market and hence may have less impact on wage developments, which could mean a rise in the non-accelerating inflation rate of unemployment (NAIRU). This would also lower potential output.

The figure below depicts rates of unemployment in the European Union (28 countries) by duration of unemployment. A number of features are noteworthy. Throughout the sample period, the share of the long-term unemployed (12 months or greater) in the total is quite high.

In 2002, short-term unemployment was 5.0 per cent, long-term unemployment was 4.1 per cent and total unemployment was 9.1 per cent.

During the Great Recession, short-term unemployment increased dramatically from 4.2 per cent in 2007 to 6.0 per cent in 2009, but has been relatively stable since, with a rate of 5.8 per cent in 2013. Long-term unemployment, however, increased from 2.6 per cent in 2008 to 5.2 per cent in 2013. So the majority of the increase in unemployment since the Great Recession has come from the long-term unemployed. Looking at the different duration groups, one can see that the timing of the increases in each group follows a monotonic pattern, as would be expected, with the group unemployed for 12-17 months increasing first and the other groups following. The group of those unemployed longer than 48 months is just picking up in the last two years of the sample.

Figure
Unemployment rates in the European Union by duration



Source: Eurostat.