Box 2.1

Recent labour market conditions in the eurozone

Unemployment rate in the eurozone as a whole stayed high, despite some slight improvement in the recent past. The situation also varied across member states. This note provides a brief analysis on the recent labour market conditions of the eurozone and implications on the region’s economic recovery.

The Global Financial Crisis and the ensuing euro debt crisis severely hit the eurozone’s economy, pulling it twice into recession between 2008 and 2013. During this period, the labour market in the region deteriorated significantly. The unemployment rate\(^{(1)}\) climbed up from 7.2% in the first quarter of 2008 to an acme of 12.1% in the second quarter of 2013, marking the highest level since eurozone’s establishment (Chart 1). Some five million jobs were lost during this period.

As the acute risks of the euro debt crisis retreated, the eurozone’s economy emerged from recession since the second quarter of 2013, bringing job gains subsequently. The unemployment rate fell since mid-2013. Employment in the region also resumed year-on-year growth since the first quarter of 2014, but the pace was only modest. As such, the unemployment rate still stood at an elevated level of 10.4% in December 2015.

The labour market conditions varied across member states. A few have performed fairly well in the recent past, with Germany as a striking example. Unemployment rate there fell to a record low of 4.5% in December 2015, thanks to stronger employment growth than labour supply growth. According to the latest detailed figures available, Malta, Austria, Luxembourg, Estonia and the Netherlands had unemployment rates below 7%. Yet, they are the minority. Unemployment rates in the rest of the region were still high. Eight member states, including France, Italy and Spain, had double-digit unemployment rates. Most member states still had unemployment rates higher than in 2008, with those in Cyprus and Greece more than two times higher (Chart 2).

(1) Unemployment rate in this Box refers to the seasonally adjusted unemployment rate.
There were also visible variations in the recovery of employment within the eurozone. On the one hand, Germany’s labour market led the pack again and saw visible cumulative gains in employment between 2008 and the third quarter of 2015. Besides, Austria, Belgium, Luxembourg, Malta and France also registered marginal job gains during this period. Yet, most member states still had employment lower than the pre-crisis level, with Spain and Greece at the end of the spectrum suffering the most severe job losses (Chart 3).
Box 2.1 (Cont’d)

The substantial slacks in the labour market partly reveal the severity of the blows brought by the previous financial crises, particularly to the economies of debt-ridden states. In addition, they also reflect the entrenched structural issues afflicting the region’s labour markets. For example, long-term unemployment, defined as those who have been out of work for more than one year, accounted for half of overall unemployment in the third quarter of 2015.

The high proportion of long-term unemployment is worrying, as the longer people are out of work, the more difficult it is for them to be hired again, and their skills would be gradually eroded. Indeed, a fifth of them stop trying to find another job, according to the European Commission.

The high youth unemployment rate in the region, at 22.0% in December 2015, is another thorny issue. In Spain, Italy and Portugal, youth unemployment rates reached as high as 46.0%, 37.9% and 31.0% respectively. This problem is partly cyclical, as young workers with less experience and skills are understandably more affected by the current weak economic situation. The problem is further exacerbated by structural issues in the labour market, such as the mismatch between the demand and supply of skills possessed by the youth and high proportion of workers under temporary employment contracts with weaker job protection in some member states.

To tackle the structural issues, the European Council in 2011 recommended comprehensive labour market reforms, including review of wage setting mechanisms, labour taxations, employment protection legislations and education and training. Many member states in the eurozone, especially those had accepted the bailout programmes from international creditors, have already taken actions. In the long term, the reforms should help increase flexibility of labour markets there. Given the sluggish economic environment, the stress on public finance and possible resistance from the vested interests, however, the implementation of the reform is likely to be a long and bumpy process and requires continuous efforts to bear fruit.

In February 2016, the European Commission forecast that the eurozone’s unemployment rate will ease from 11.0% in 2015 to 10.5% in 2016 and still stay at a double-digit level of 10.2% in 2017. In other words, high unemployment rate is expected to stay for a while in the eurozone, which will likely continue to confine the recovery of consumer spending and economic growth in the region in the period ahead.