

OBSERVATION

TD Economics



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EUROPE'S LOST GENERATION

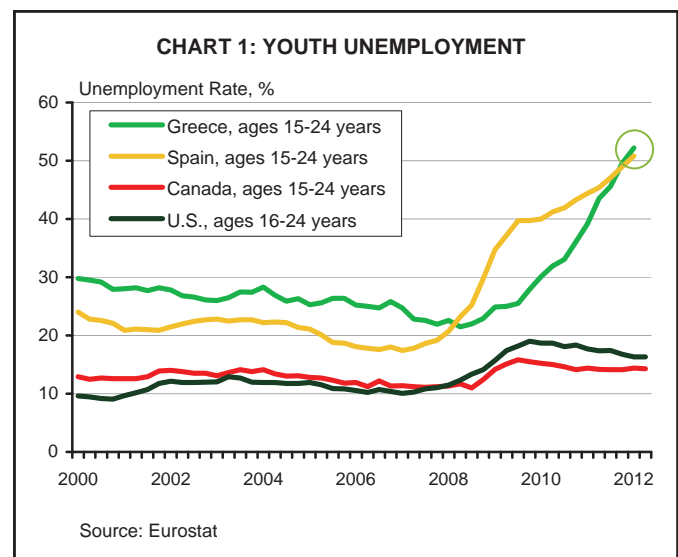
Highlights

- Youth unemployment rates are above 50% in the beleaguered economies of Greece and Spain. These are substantially above those in the U.S. and Canada which currently fluctuate around 16% and 14%, respectively. But do these figures really give you the full story?
- Differences in labour force participation rates can have a material impact on the way the unemployment rate portrays the labour market.
- Other measures are available which seem to paint a different picture – the ratio of unemployment to the population for Greece and Spain is far closer to those in the U.S. and Canada.
- However, the seemingly different measures ultimately tell the same story – that young workers are facing difficult conditions all over the industrialized world, but those in Europe are facing almost impossible conditions.

In the wake of the 2008-09 recession, there has been enormous attention on the plight of younger workers. One statistic that is thrown out on an almost daily basis is the massive 50% youth unemployment rates in Greece and Spain. Comparatively, the youth unemployment rates in the U.S. and Canada only ever peaked at 19% and 16%, respectively. But do youth unemployment rates really give you the whole story? There are alternative measures to the unemployment rate which present a seemingly different picture of youth unemployment in Europe. In this report, we discuss some of the details of Europe's labour market data and compare it to Canada and the U.S. in order to shed light on just how poor the situation is for European youth looking for work.

Youth unemployment rates

The unemployment rates for youths aged 15 to 24 years in Greece and Spain have more than doubled in the last four years. Between the first quarters of 2008 and 2012, rates have spiked from 21% to 52% in Greece and from 17% to 51% in Spain (chart 1). Comparatively, the youth unemployment rate in Canada increased from 11% to a peak of 16% in late-2009, but has since fallen to around 14% as of the first quarter of 2012. The U.S. experienced a similar pattern, rising from 10% to a peak of 19% before falling to its current 16% level. From the perspective of the unemployment rate, youth labour markets are clearly dramatically weaker in Greece and Spain relative to the U.S.¹ and Canada. Even in other troubled European economies such as Italy, Ireland and Portugal, unemployment rates currently range from 30-35%, still a far cry from the dramatic levels in Greece and Spain, but still well above those in North America.



Does the unemployment rate tell us the whole story?

The unemployment rate is a key indicator of labour market performance. However, since the rate is calculated by taking the unemployed as a share of the labour force, it is dependent on who is actually part of the labour force. In order to count, one must be working or looking for work. Individuals participating in education that do not work part-time, stay-at-home parents, or discouraged job searchers are all not counted. The unemployment rate also does not distinguish those who are involuntarily part-time employed.

The labour force as a share of the population is called the participation rate, and here we see equally large differences between Greece and Spain and their North American counterparts. Spain's youth participation rate was just 39.5% as of the first quarter of 2012 (chart 2). Since the original financial crisis began in late-2008, it has fallen by more than 8 percentage points. This is not unexpected given that a crippled job market is likely to lead to an increase in discouraged job searchers. In Greece, the youth participation rate was just 29.3% in the same quarter, one of the lowest in the advanced world. Much more surprising, in contrast to Spain, is that Greece's participation rate has been relatively steady despite a devastated economy, having fallen by only 1 percentage point since late-2008.

By comparison, youth participation rates in the U.S. and Canada are much higher. Though having fallen by more than 3 percentage points since 2008, 55% of American youth and 64% of Canadian youth participate in the labour market. This naturally raises the issue of why participation rates are so much lower in Greece and Spain. The issue likely has nothing

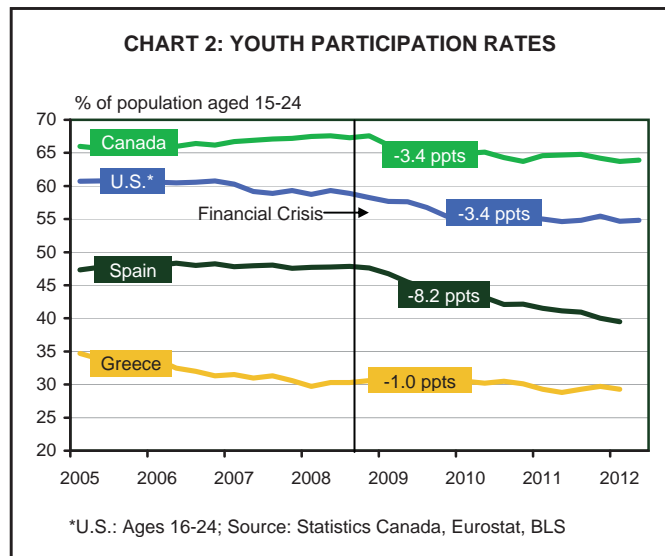


TABLE 2: IMPACT OF DECLINING PARTICIPATION RATES

Example Labour Force Statistics	Period 1	→	Period 2
(A) Population	1,000,000	50,000 discouraged unemployed leave the labour force	1,000,000
(B) Labour Force	500,000		450,000
(B÷A) Participation Rate	50%		45%
(C) Unemployed Individuals	100,000		50,000
(C÷B) Unemployment Rate	20%		11%

to do with schooling as education enrolment rates are all roughly the same, according to the OECD. There could be a cultural component. Students may be less likely to work part-time while in school, or there could be a more significant share of youth involved in unregistered employment.

Regardless of what the explanation is, the large gap in

TABLE 1: YOUTH LABOUR MARKET SUMMARY TABLE

	Greece	Spain	Canada	Canada (Ages 16-24)	U.S. (Ages 16-24)
Population (millions)	1.1	4.6	4.5	4.1	38.8
Labour Force (millions)	0.3	1.8	2.8	2.7	21.2
Youth Participation Rate (%)	29.3%	39.5%	63.9%	67.2%	54.8%
Pre-recession Unemployment Rate (%)	21.5%	17.4%	11.0%	9.8%	10.1%
Peak Unemployment Rate (%)	52.2%	50.8%	15.8%	14.8%	19.0%
Current Unemployment Rate (%)	52.2%	50.8%	14.3%	13.0%	16.3%
Pre-recession Unemployment Ratio (%)	6.2%	8.3%	7.4%	6.9%	6.1%
Peak Unemployment Ratio (%)	15.5%	20.0%	10.3%	10.2%	10.5%
Current Unemployment Ratio (%)	15.5%	20.0%	9.2%	8.8%	8.9%
Employment Change (% , Q1-2008 to Q1-2012)	-43.7	-54.0	-8.1	-6.8	-8.7
Employment Change (thousands, Q1-2008 to Q1-2012)	-116	-995	-214	-174	-1683
Unemployment Change (% , Q1-2008 to Q1-2012)	110.3	85.1	20.8	19.5	36.7
Unemployment Change (thousands, Q1-2008 to Q1-2012)	86	424	70	57	926

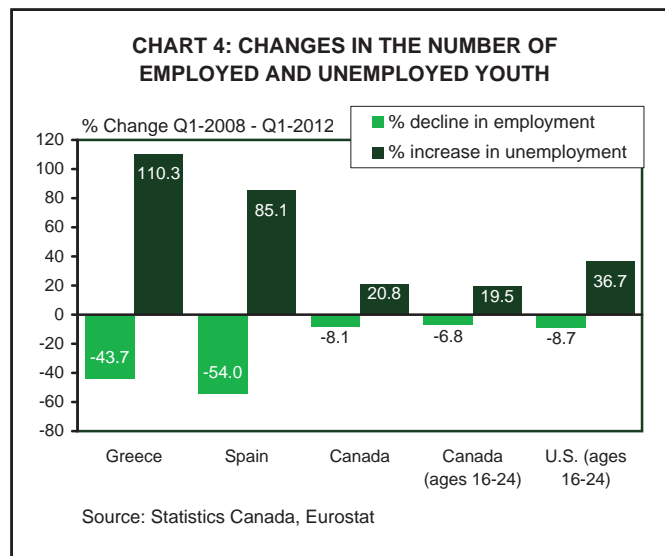
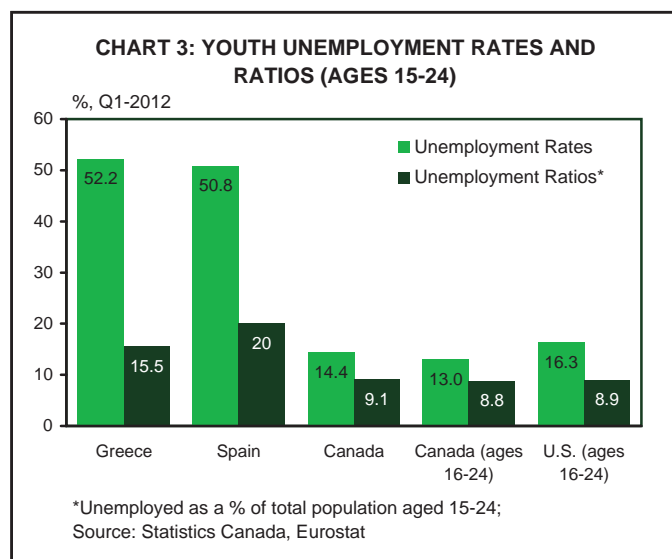
Source: Statistics Canada, Eurostat, Bureau of Labor Statistics

participation rates between Greece and Spain vis-à-vis North America makes comparing their labour markets challenging. An unemployment rate of over 50% in Greece and Spain only indicates what is occurring among a relatively small fraction of the total youth population. If the other Greek and Spanish youth were, for example, participating in higher education, there would be less concern about their economic fortunes. The question is what those youths not in the labour market are doing and that is something the unemployment rate cannot tell you. As a result, focusing solely on the unemployment rate can give an inflated view of the distress among the entire youth population relative to the U.S. and Canada.

It is also worth noting that the differences in youth participation rates between Greece and Spain presents a challenge in comparing their labour markets, as well. Spain began the recession with a lower youth unemployment rate than Greece (table 2), but has since risen to roughly the same level. However, a declining participation rate due to a rise in discouraged workers actually has a downward impact on a country's unemployment rate (table 1). In other words, considerably more jobs needed to be shed in Spain relative to Greece for Spain's youth unemployment rate to reach the same level. So while their labour markets might appear the same given the close proximity of their unemployment rates, their situations are quite different.

An alternative way of looking at unemployment

To account for differences in participation rates, an alternative measure of labour market performance is avail-



able in the unemployment ratio. This ratio takes the level of unemployment as a share of the entire youth population, regardless of whether or not they are attached to the labour force. By this measure, the youth labour market appears much better. The unemployment ratios in Greece and Spain were just 15% and 20%, respectively, as of the first quarter of 2012 – upwards of 30 to 40 percentage points lower than their unemployment rates. In addition, the gaps between the ratios in Greece and Spain vis-à-vis Canada and the U.S. are much narrower (chart 3).

That being said, the youth unemployment ratios in Greece and Spain have still more than doubled in the last 4 years (table 2). Ultimately, the number of employed youths in these countries has fallen by a dramatic margin. The number of unemployed youth in Greece has increased by 110% over the last 4 years. In Spain, the increase has been 86%, but this is likely skewed downwards by the declining youth participation rate. The number of employed youth in Spain has actually fallen by more than half. By comparison, losses in Canada and the U.S. have been far smaller. Youth employment in Canada fell by 8%, while youth unemployment rose by 20% over the same time frame. In the U.S., youth employment fell by 9%, while youth unemployment rose by 40% (chart 4). So while the unemployment ratios for Greece and Spain are much less dramatic, they still present the same bleak picture of the youth labour market.

In addition, the unemployment ratio is also a misleading metric if one considers it as a substitute for the unemployment rate since it artificially improves the perception of unemployment by boosting the denominator in the calcula-

tion. That there are millions of Greek and Spanish youths to whom the condition of the labour market is perhaps irrelevant is of little consequence to the hundreds of thousands struggling to find a job. Between the two imperfect measures, economists prefer the unemployment rate as opposed to the ratio. The unemployment rate provides a better indication of the ability of the labour market to absorb the labour supply. This is not only relevant to those in the job market now, but also for those who are set to join it, such as graduating students or returning discouraged workers.

A NEET measure of the labour market

The same story of dramatically high unemployment in Greece and Spain is again retold by data collected on youth that are Not in Employment, in Education or Training (NEET). Youth NEET rates are collected in Europe and Canada, but not the U.S., and include those that are stay-at-home parents, face physical disabilities that prevent them from working and those that are simply idle. NEETs are then separated into those who do not want to work and those that do want to work. Overall, there has been a dramatic increase in the number of NEET youth in Greece and Spain with all of the increase coming from those who would like employment. As of 2011, 12.3% and 15.0% of young people aged 15 to 24 in Greece in Spain, respectively, are idle but want to work, almost double their pre-recession levels (chart 5).

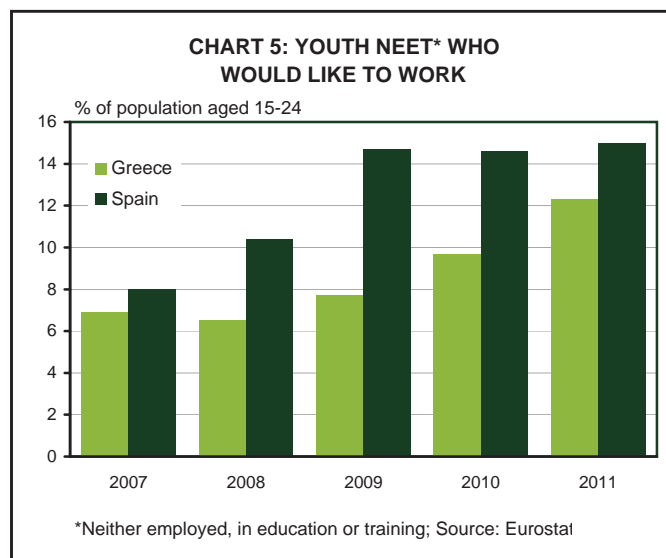
In Canada, NEET rates are available, but only for the 15 to 29 age group. As of 2011, roughly 10% of youth in this age group are NEET and want to work. In both Greece and Spain, the comparative number for that age cohort is 17%. The U.S. does not collect data on youth NEET.

Not so great on this side of the Atlantic either

The analysis above might suggest North American

Unemployment Rate Methodological Details

One might wonder whether or not we are really dealing with an apples to apples comparison when discussing unemployment in Europe, the U.S., and Canada. Indeed, we are. All of the labour market terms used in the analysis are defined by the International Labour Organization and all three collect their data via a household survey. The sole difference in the official statistics is that in the U.S., a youth is considered between 16 and 24 years of age, while in Europe and Canada, 15 year olds are also included. While there may be differences due to the self-reporting nature of a household survey, there is no evidence to support this claim.



youths have much more opportunity than their Greek and Spanish counterparts. However, while the differences in every labour market indicator might be stark (table 2), these are challenging times for all young people. More than 214,000 net jobs were lost among those aged 15 to 24 in Canada and job gains since the economic recovery have been non-existent. In the U.S., 3.3 million net jobs were shed over the course of the recession and since the recovery only 25% of those jobs have been regained. However, this does not speak to the types of jobs young Americans are taking. A recent analysis by the Associated Press estimated that more than 50% of American youth are either unemployed or underemployed – meaning many youth are working in jobs that do not require the level of credentials they hold. The classic example being a university graduate working as a barista.

Conclusion

While youth in Canada and the U.S. are facing significant challenges in the job market, conditions are still much better than in the beleaguered economies of Greece and Spain. Focusing solely on the 50% youth unemployment rates in those countries can overstate the challenges faced by the entire youth population. However, at the other extreme, the unemployment ratio could potentially understate the difficult conditions. But regardless of the labour market yardstick one considers, the story ultimately remains the same – that young workers are facing extremely challenging labour market conditions which will likely persist for some time to come.

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Endnotes

1 the definition of “youth” in the U.S. excludes those 15 years of age

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