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COMMISSION STAFF WORKING DOCUMENT

Employment and Social Developments in Europe 2017

Chapter 1

Main Employment and Social Developments

CHAPTER 1

Main Employment and Social Developments

1. INTRODUCTION ([1])

Economic and employment growth in the EU continued in 2016 and early 2017, along the recovery path which started in mid-2013. Labour market conditions continued to improve and employment rose to 234.2 million in the first quarter of 2017. By 2016 the employment rate reached the highest level ever recorded, while the activity rate followed a steady structural upward trend. In May 2017 the unemployment rate, at 7.8 % of the labour force, was at its lowest since January 2009. This recovery has also shown positive social effects such as a visible reduction in poverty and social exclusion, with the rate returning to the 2008 level of 23.7 %.

While the outlook is positive, important challenges remain at economic, labour market and social levels. The recovery from the global economic and financial crisis that started in 2008 ([2]) is incomplete in many areas. For instance, the rebound in investment lacks force, wage growth is relatively slow and the volume of work remains below previous levels. Almost 119 million people are at risk of poverty or social exclusion, with some groups continuing to display less favourable outcomes. Disparities between Member States are still high. Unemployment ranges from 5 % or less in the Czech Republic, Germany, Hungary, Malta and the UK to around 20 % in Greece and Spain. The outlook is favourable, with moderate growth and improvements in the labour market expected. Continued job-rich economic growth is needed to support sustained improvements in socio-economic outcomes.

This chapter reviews the latest socio-economic developments at EU level and in Member States. The analysis covers economic developments, their implications for the labour market and their influence on the social situation. In view of this edition's overarching topic of intergenerational solidarity, dedicated sections analyse some relevant demographic groups (young people, older workers and women).

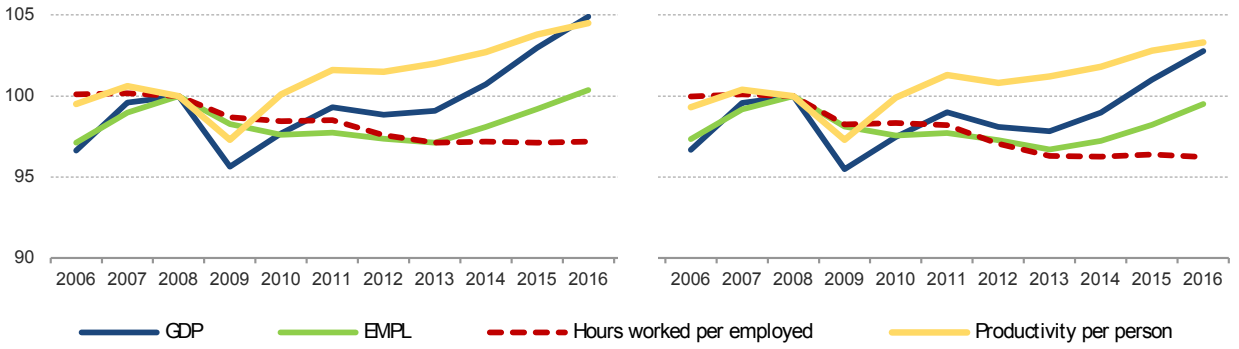
([1]) This chapter was written by David Arranz, Magdalena Grzegorzewska and Sonia Jemotte.

([2]) Henceforth and throughout this report referred to as 'the crisis'.

Chart 1.1

Strong employment growth given modest economic expansion, subdued productivity growth since 2012 and stagnation in hours worked per person employed

Growth in real GDP, real productivity, employment and hours worked per person employed (cumulative change – index 2008=100), EU and euro area



Note: Average annual hours worked per person employed

Source: Eurostat, National Accounts [nama_10_gdp, nama_10_a10_e, nama_10_lp_ulc]; DG EMPL calculations

Click here to download chart.

2. IMPROVING MACROECONOMIC ENVIRONMENT

The EU economy and labour market continued to perform well in 2016, with sustained growth, solid net job creation and a decrease in unemployment, despite a number of external and internal challenges ([3]). While the outlook is positive overall ([4]), several factors may hold back the sustainability of the recovery including persistently weak investment, constrained wage growth, subdued labour productivity growth and lower hours worked.

2.1. Moderate growth is driven by private consumption, but with weak investment

The EU economy continued to grow steadily throughout 2016. Following the double-dip recession, the EU and euro area economies regained their GDP pre-crisis peaks in 2013 and 2014 respectively (*Chart 1.1*), and have continued growing at a steady pace ([5]) (*Chart 1.3*). In 2016, real GDP grew by 1.9 % in the EU and by 1.8 % in the euro area. Private consumption was the key driver of economic expansion, benefiting from an improvement in the employment situation, rising disposable incomes and low inflation. Government consumption also contributed significantly to the expansion in economic output. Export growth eased markedly amid the global and trade slowdown since 2009, with net trade exports making a slight negative contribution to growth overall (*Chart 1.2*).

Despite favourable conditions, investment remained weak. Investment growth decreased to 2.6 % in the EU, and rose to 3.7 % in the euro area in 2016 ([6]). Overall, investment remained subdued despite favourable financing conditions and policy efforts, including the Investment Plan for Europe and tax incentives in several Member States. Factors potentially holding back investment include policy uncertainty, high public and private debt and continuing needs for balance sheet adjustments in some Member States, as well as moderate medium-term prospects for aggregate demand.

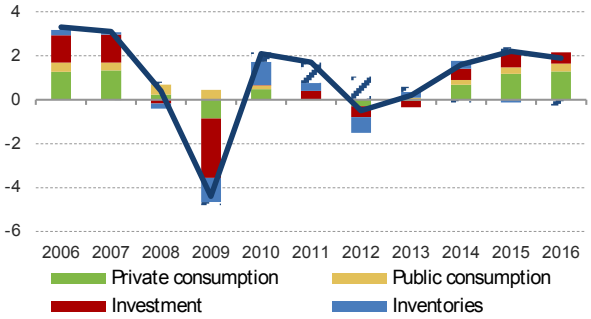
([3]) These reflected economic, social, security and political concerns, including concerns about growth in emerging markets, exceptionally weak world trade, terrorist attacks in some Member States and neighbouring countries, the UK's vote to leave the EU.

([4]) As global growth is firming and policy uncertainty in the EU has gradually decreased, and economic sentiment improves.

([5]) Eurostat estimates that real GDP grew by 0.4 % in the EU and by 0.5 % in the euro area in the first quarter of 2017.

([6]) Without Ireland, which recorded exceptional rates in 2015-16, investment growth would have stood at 1.8 % for the EU and 2.6 % for the euro area in 2016.

Chart 1.2
GDP growth driven by domestic consumption, with weakening contributions from investment and trade
Real GDP growth (% change on previous year) and contribution of its components, EU



Source: Eurostat, National Accounts [nama_10_gdp]
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Sustained economic growth is expected over the next two years in all Member States. According to the European Commission Spring 2017 Forecast ([7]) released on 11 May, GDP growth in the EU is projected to remain stable at 1.9 % in 2017 and 2018. In the euro area, GDP growth is expected to be fairly steady at 1.7 % in 2017 and at 1.8 % in 2018. Economic activity is set to increase in all Member States over the forecast period.

2.2. Employment growth appears surprisingly strong but with subdued growth in hours worked

Employment in the EU continued to expand throughout 2016. After being on a downward trend until 2013, employment has grown at a robust pace. It had surpassed its pre-crisis high, in the EU by mid-2016 and in the euro area by the end of 2016 (*Chart 1.3*). In 2016, employment growth strengthened to 1.2 % in the EU and to 1.3 % in the euro area. In the first quarter of 2017, the number of employed people reached 234.2 million, including 154.8 million in the euro area. At the same time, several Member States, namely Greece, Spain, Latvia, Bulgaria, Croatia and Romania, still record employment levels around 10 % lower than their respective pre-crisis peaks.

The recovery in employment and the decline in unemployment have been surprisingly strong given the steady but moderate GDP growth. This trend was especially clear during the last two years, both in the EU and the euro area. As analyses by the European Commission and the ECB show ([8]), the high responsiveness of employment to economic growth could be due, among other factors, to weak dynamics in hours worked and increased part-time work, reduced uncertainty when hiring and the rising importance of service sectors which are traditionally more labour-intensive. Structural reforms in several Member States ([9]) have also helped to underpin the recovery.

A further expansion of employment is expected over the next two years in all Member States. According to the European Commission Spring 2017 Forecast, employment growth is set to moderate to 0.9 % in the EU in 2017 and 2018, and to remain at a solid 1.2 % in 2017 and 1.1 % in 2018 in the euro area. An expansion of employment is expected for all Member States. It will benefit from domestic demand-led growth, moderate wage growth and, in some Member States, from structural reforms and other policies ([10]).

Subdued growth in hours worked per employed person points to some remaining slack in the labour market. While headcount employment has increased, the recovery in hours worked (per employed person) has been slow. Hours worked decreased in the EU and in the euro area until 2013 to absorb output contraction. Despite the general recovery, they stagnated afterwards, remaining far below

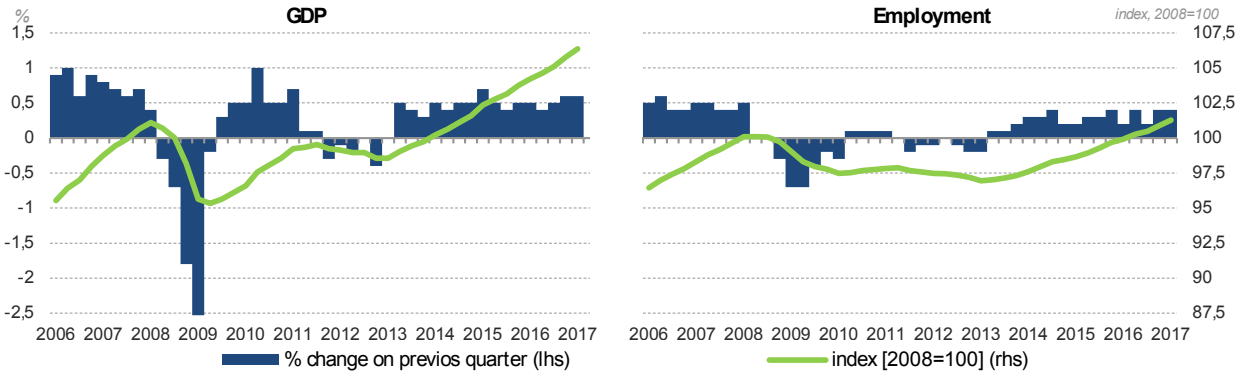
([7]) See European Commission (2017b), p. 1.
([8]) See European Commission (2016k), p. 16 and European Central Bank (2016a), p. 53-71.
([9]) See European Commission (2016k), p. 5, p. 55.
([10]) See European Commission (2017b). p. 3.

Chart 1.3

Recovery in GDP - four years of modest growth, with 2008 peak surpassed in 2014

Uninterrupted employment expansion since 2013, stronger than expected from GDP growth, and reaching highest level in 2016

Real GDP growth and employment growth (% change quarter-on-quarter and cumulative change – index 2008=100), EU



Source: Eurostat, National Accounts [namq_10_gdp, namq_10_pe]; Data seasonally adjusted

Click here to download chart.

previous levels ([11]). This stagnation is linked to the increased use of part-time work (partially involuntary) and the slower recovery in employment in full-time equivalents (FTE). Consequently, the total volume of work remains below previous levels (*Chart 1.2*). Only in the Netherlands, Slovenia and the UK have the average annual hours worked per person employed increased above the 2008 level. A pick-up in hours worked could further support private consumption in its role as a key growth driver.

2.3. Productivity growth remains subdued, and varies across Member States

Labour productivity in the EU continued to increase throughout 2016, but at a subdued pace. Following an initial drop in 2009 and a strong rebound in 2010, growth in labour productivity ([12]) had stagnated in 2012. Since 2013 it has increased at a modest pace of 1 % or less (*Chart 1.1*) ([13]). In 2016, growth in productivity per person moderated to 0.7 % in the EU and 0.5 % in the euro area, and growth in productivity per hour worked decelerated even more, to 0.6 % in both regions. The slow increase in productivity since 2013 compares with growth of around 1.5-2 % between 1995 and 2007. The subdued trend in productivity per person employed is linked to factors such as a greater use of part-time jobs and lower hours worked per employee.

Growth in labour productivity differed across Member States, but generally remained modest ([14]). Between 2013 and 2016, most Member States registered an increase in labour productivity. The average annual growth in that period ranged from around -0.5 % to 4.5 % ([15]). The variations reflected the fact that output expansion was generally faster than the increase in employment, but to different degrees across Member States (*Chart 1.4*).

([11]) See discussion on involuntary part-time work in Section 3.3.

([12]) Labour productivity per person employed is GDP in chain-linked volumes divided by employment; labour productivity per hour worked is GDP in chain-linked volumes divided by average annual hours worked (average annual hours worked per person employed multiplied by employment).

([13]) The productivity developments described above capture short- to medium-term changes in which labour productivity is the outcome of fluctuations in output and employment. Its decline in 2009 was determined by labour-hoarding, while the recent subdued pace reflected unexpectedly strong employment growth. In the long run, however, the labour force becomes more productive in a sustainable way if it has more productive capital at its disposal (including tangible capital such as machines and intangible capital such as software), if it becomes more skilled and motivated, if production processes become smarter thanks to technological progress and if economic activity is at its full potential. In the long run it is productivity and employment growth that drive output growth.

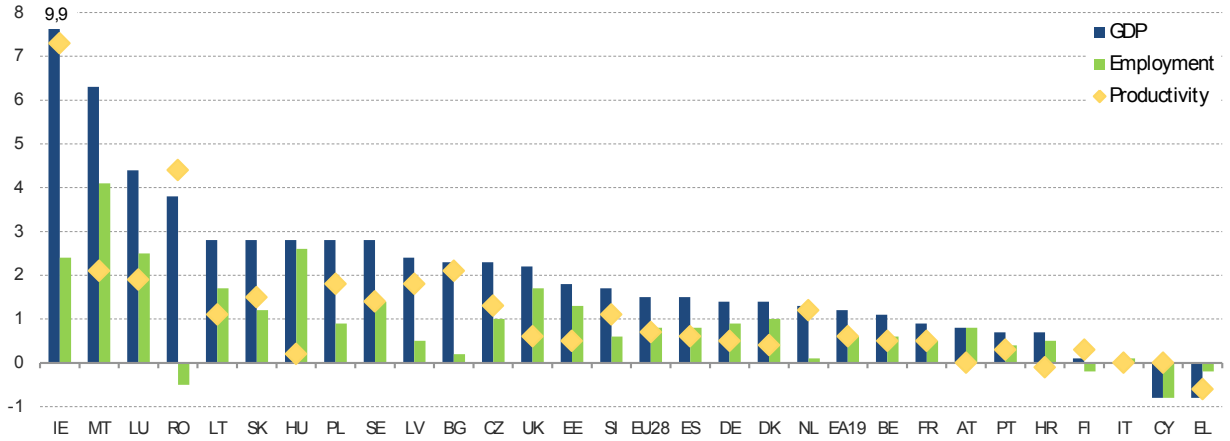
([14]) Measuring labour productivity as GDP divided by the number of employed persons is an accounting rule, not a behavioural relationship that would indicate causality.
Labour productivity growth (measured as the percentage change in output per person employed) is the difference between the growth rate of output and the growth rate of employment.

([15]) In Ireland the strong output increase in 2015 and 2016 was to a large extent driven by a surge in gross capital formation, mainly reflecting the doubling (in constant prices) of intellectual property products.

Chart 1.4

Productivity growth rates vary but remain modest in most Member States, as employment expansion is strong relative to modest economic growth

Growth in real labour productivity, real GDP and employment (%,compound annual growth 2013-2016), EU, EA and Member States



Note: Compound annual growth is a geometric average providing constant rate over 3 years
How to interpret the chart: in Greece, the decline in productivity was linked to a decline in output stronger than the decline in employment. Labour productivity stagnated in Austria, Croatia as employment and output expanded at a similar pace, and in Italy with no growth in output and employment. On the contrary, Romania recorded by far the highest increase in labour productivity, driven by a strong expansion of output accompanied by a small contraction in employment

Source: Eurostat, National Accounts [nama_10_gdp, nama_10_pe, nama_10_lp_ulc]; DG EMPL calculations

Click here to download chart.

2.4. Growth in nominal unit labour costs is moderate

Nominal unit labour costs in the euro area ([16]) have increased modestly for the last three years. In 2016 growth in nominal unit labour costs slowed down to 0.8 %, as productivity growth weakened and growth in compensation per employee remained unchanged at 1.3 %. The overall modest growth of nominal unit labour costs in 2013-2016 mainly reflected the subdued dynamics of nominal wages (compensation per employee), adjusted by modest increases in labour productivity ([17]).

In a few Member States nominal unit labour costs decreased from 2013 to 2016, primarily because nominal wages fell. This was the case in Greece, Cyprus and Croatia ([18]). By contrast, the Baltic Member States and Bulgaria recorded strong increases in nominal unit labour costs from 2013 to 2016, as nominal wages increased more strongly than productivity (*Chart 1.5*).

Wage growth remained modest in most Member States, despite receding unemployment. Wage growth in 2016 was particularly subdued in the euro area countries, with the exception of the Baltic States It was also stronger in Eastern European Countries. Factors that can explain wage moderation include the remaining labour market slack, low inflation, weak productivity growth and the lagged response of negotiated wages to major labour demand shocks ([19]).

Inflation has been very low, but started to rise in 2016. Consumer price inflation had been declining since 2012, and has been below 1 % in the EU since 2014. It has picked up since the second half of 2016, mostly reflecting the recovery in oil prices. Low inflation supported real wage growth despite modest increases in nominal wages, thereby underpinning households' purchasing power. This effect is set to fade in 2017.

([16]) Developments at EU level (in euros) showed a different dynamic, largely reflecting the depreciation of the British Pound.

([17]) Nominal unit labour cost (ULC) measures compensation per employee adjusted for labour productivity. Employee compensation covers the total remuneration - including gross wages and salaries (before deduction of taxes and employees' social security contributions), employers' social security contributions, bonuses and overtime payments - that is payable, in cash or in kind, by employers to employees in return for work done by the latter during the accounting period.

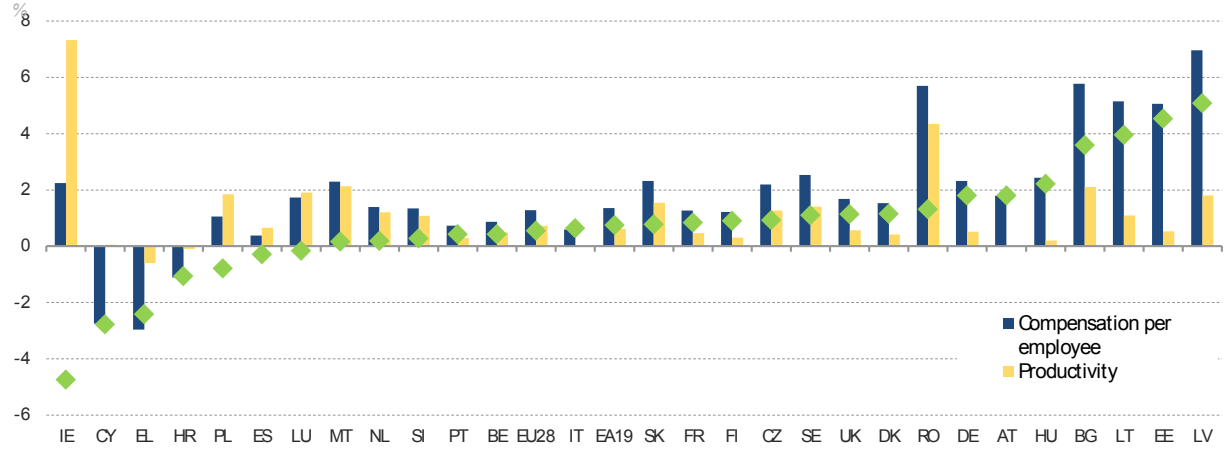
([18]) In Ireland the sharp decrease in ULC mainly reflected a sharp increase in labour productivity linked to the strong output increase in 2015 (as explained in the footnote above).

([19]) See European Commission (2016k), p. 46-47.

Chart 1.5

Unit labour costs increase in most Member States

Growth in nominal unit labour costs, nominal compensation per employee and real labour productivity (%, compound growth 2013-2016), EU, EA and Member States



Note: Compound annual growth is a geometric average providing a constant rate over 3 years
Nominal unit labour cost (ULC) measures compensation per employee adjusted for labour productivity. Employee compensation covers the total remuneration - including gross wages and salaries (before deduction of taxes and employees' social security contributions), employers' social security contributions, bonuses and overtime payments - that is payable, in cash or in kind, by employers to employees in return for work done by the latter during the accounting period.

Source: Eurostat, National Accounts [nama_10_gdp, nama_10_pe, nama_10_lp_ulc]; DG EMPL calculations

Click here to download chart.

3. LABOUR MARKET DYNAMICS

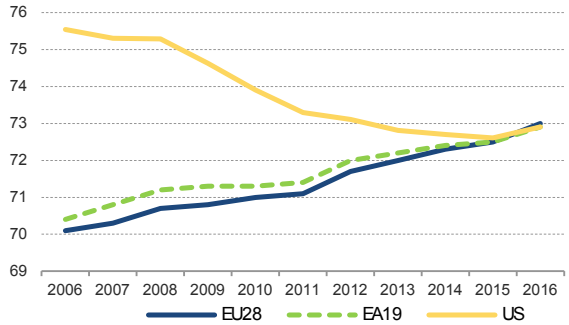
3.1. Labour market participation is on a long-term upward trend

Labour market participation increased steadily in the EU and euro area over the last decade. As shown in *Chart 1.6*, labour market participation follows a structural upward trend, not interrupted by the crisis. In 2016, the active population (aged 15 to 64), reached almost 240 million people in the EU and 159 million in the euro area. The activity rate in both cases was around 73 % in 2016. This contrasts with the picture in the US, where labour participation declined strongly between 2008 and 2015. In 2016, activity rates in the EU and in the US were almost identical.

Chart 1.6

Steady activity rate growth in the EU since 2006

Activity rate, % of population 15-64



Source: Eurostat, LFS [lfsi_emp_a, lfsi_emp_q]

Click here to download chart.

Older workers and women are the main groups driving the increase in the activity rate. In the case of older workers (aged 55 to 64), pension reforms, including higher statutory retirement ages, and higher qualifications have contributed to longer working lives (see Chapter 4). For women, increased flexibility and policies supporting the reconciliation of working life with family duties (part-time work, childcare, etc) ([20]) as well as a higher need for second earners to help sustain standards of living have been important drivers of the observed rise in their participation. A growth in participation has been observed

([20]) See European Commission (2016e) p 84.

across society, including for example in lower quartiles of the income distribution ([21]). This increase in participation rates of some specific demographic groups (mainly older workers and women) has outweighed the flow of people leaving the labour market because of the crisis, such as those discouraged from job-seeking ([22]).

Labour market participation among migrants ([23]) **remains low.** Contrary to the overall upward trend, the activity rate of migrants declined to just 70 % in 2016, down from 71.5 % in 2008. In comparison, the activity rate of people born in the same country rose to 73 %. But the highest rate was seen for those born in other EU Member States at 78 %. These disparities reflect challenges linked to the integration of the heterogeneous group of migrants, including refugees, family members, students or job-seekers ([24]).

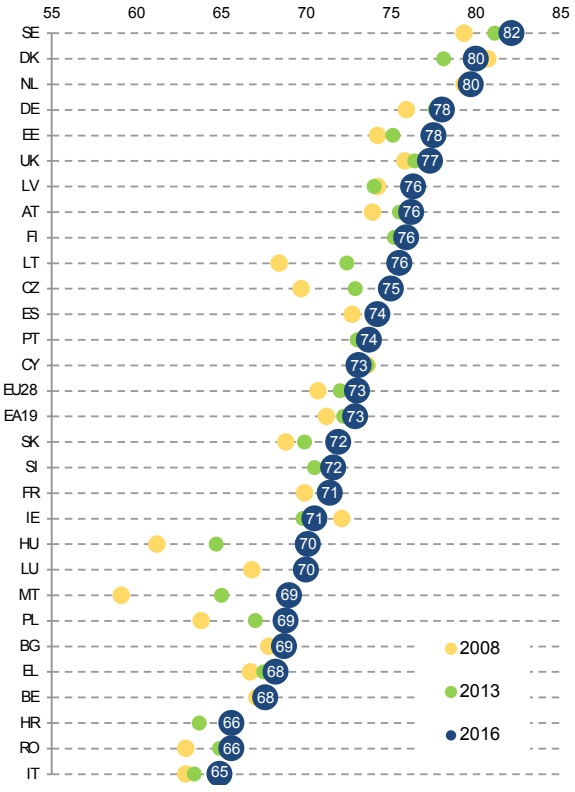
Activity rates increased in most Member States. The long-term trends and patterns seen in the EU as a whole reflect a widespread positive change in Member States, as shown by *Chart 1.7*. This has produced some upward convergence in activity rates ([25]) in the EU. Only seven Member States currently have lower activity rates than in 2008, and of these the only significant decline was in Ireland (-1.6 pps).

Rising labour market participation - together with sustainable increases in productivity - is key to supporting future growth and intergenerational solidarity (see Chapter 2).

Chart 1.7

Most Member States have increased their activity rates since 2008

Activity rate, % of population 15-64



Note: FR data for metropolitan area

Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

([21]) See European Commission (2016k) p 10.

([22]) These are persons who, while willing and able to engage in a job, are not seeking work or have ceased to seek work because they believe there are no suitable available jobs.

([23]) Migrants are defined based on the country of birth criterion, as people born outside of the EU.

([24]) See European Commission (2016i) p. 119-123.

([25]) The upward convergence is due to an increase in the average activity rate (it has grown in nearly all most Member States), combined with a reduction in the dispersion among Member States (coefficients of variation).

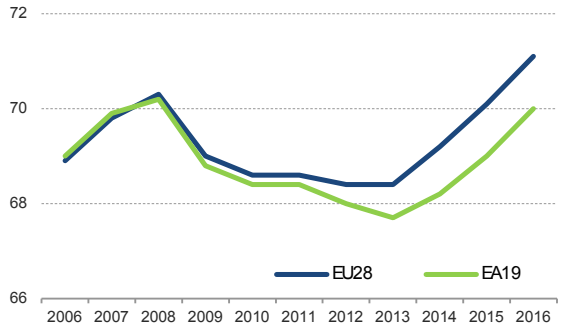
3.2. Employment reached an all-time high in 2016

In 2016, employment in the EU surpassed its pre-crisis rate and level ([26]). 214 million people aged 20 to 64 (71.1 % of the EU population) were in employment in 2016, the highest number ever. The employment rate in FTEs has also grown during the recovery, but at a slightly slower pace. Increases in female and older workers' employment contributed to the rise (see Section 4 for details). In the euro area, however, the employment rate was still slightly lower than before the crisis (70.0 % in 2016, down from 70.2 % in 2008). In the years following the sovereign debt crisis of 2012 and 2013, a gap emerged between the employment rates of the euro and non-euro area countries which has not yet narrowed (*Chart 1.8*).

Chart 1.8

EU employment rate in 2016 exceeds its 2008 rate

Employment rate, % of population 20-64



Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

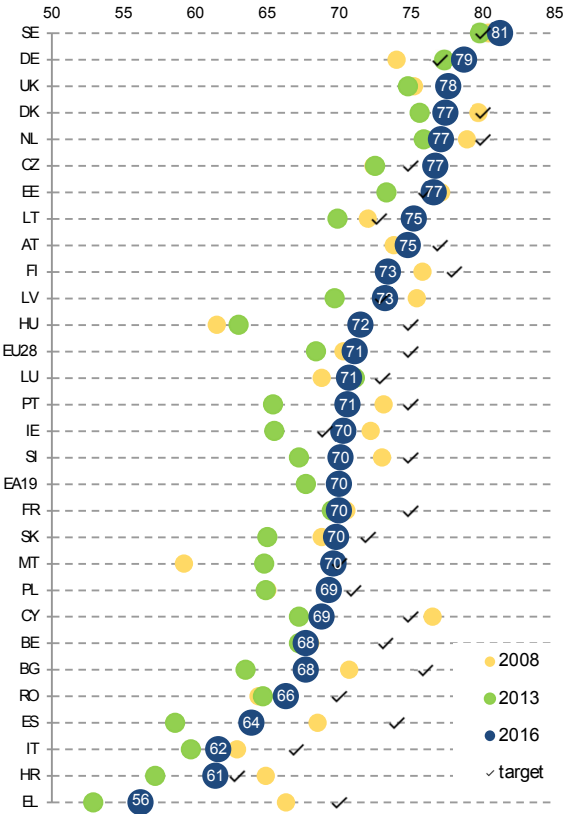
The employment rate has increased in almost all Member States since the beginning of the recovery. Between 2013, the start of the recovery, and 2016, only Luxembourg recorded a decrease in its employment rate, as shown in *Chart 1.9*. Over the same period, Hungary (up by 8.5 pps) and Lithuania (up by 5.3 pps) recorded strong increases. However, in 2016 more than half of the Member States, 17 countries, remained below the rates recorded in 2008, notably Greece (-10.1 pps) and Cyprus (-7.7 pps).

([26]) For the age group 20-64, the one that is used to define the Europe 2020 target for the employment rate in the EU.

Chart 1.9

Most Member States lag behind their Europe 2020 targets

Employment rate, % of population 20-64



Note: FR data is for metropolitan

Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

Achieving the Europe 2020 employment targets remains challenging for many Member States. After initial setbacks, and with wide differences among them, EU countries are approaching their national Europe 2020 targets, but often slowly. By 2016, seven Member States had already reached their respective targets; but still today 10 Member States lag behind their targets by more than 4 pps, particularly Greece and Spain (14 pps and 10 pps below respectively).

Gains in employment have not been evenly distributed between different demographic groups. The employment rate of migrants in the EU has been recovering more slowly than for other groups (especially for migrant women) and has not yet returned to pre-crisis levels (61.2 % in 2016 vs. 66.1 % in 2008). Migrants' employment rate has always been lower than the employment rate of people born in the same country (71.8 %) or in other EU Member States (72.6 % in 2016). People with a disability ([27]) are still less likely to be employed (below 50 % in 2013), than those without any disability (more than 70 %), although their situation has improved.

At EU level, reaching the 75 % employment target by 2020 will require increases of around 1 pp per year in the employment rate. If recent trends continue, the target is achievable, especially if vulnerable groups can be better integrated ([28]).

3.3. The employment structure of the EU is changing

The employment structure of the EU has evolved since the crisis and over the course of the subsequent recovery. In 2016, employment reached a level comparable to the 2008 pre-crisis situation. However, the underlying structure has changed, substantially in some cases, in its composition, characteristics and in the quality of jobs.

([27]) See http://www.disability-europe.net/theme/statistical-indicators People with disabilities are defined here as people with some, or a severe, limitation in activities. people usually do, owing to health problems that have lasted for at least six months.

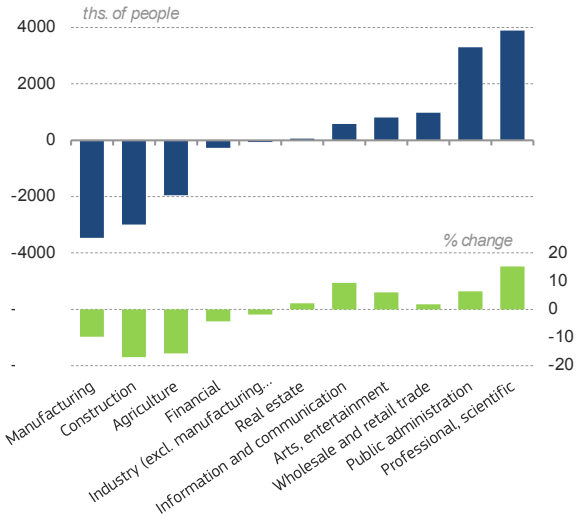
([28]) See European Commission (2016b), p. 2.

Employment by sectors

Employment in the EU has shifted across sectors. Three sectors, manufacturing, construction and agriculture, accounted for 96 % of the jobs lost during the crisis and the subsequent recovery (from 2008 to 2016).

Employment growth was concentrated in service-oriented and knowledge intensive sectors. *Chart 1.10* shows that new jobs were created, notably in the "Professional, scientific" and "Information and communication" sectors. The sector with the biggest share of employment is "Wholesale, trade, transport, accommodation and food", but employment growth there has been modest. In absolute terms, the gain in jobs was concentrated mainly in the "Professional, scientific" and the "Public administration" sectors. The shift towards services, which are more labour intensive, is one of the reasons why employment growth was stronger recently than the moderate rate of GDP growth would suggest.

Chart 1.10
Shift in employment toward service-oriented activities
Changes in employment by sector in the EU (2008-2016)



Note: Exact NACE activities: (A) Agriculture, forestry and fishing, (B-E) Industry (except construction), (C) Manufacturing, (F) Construction, (G-I) Wholesale and retail trade, transport, accommodation and food service activities, (J) Information and communication, (K) Financial and insurance activities, (L) Real estate activities, (M-N) Professional, scientific and technical activities; administrative and support service activities, (O-Q) Public administration, defence, education, human health and social work activities, (R-U) Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organisations and bodies

Source: Eurostat, National Accounts [nama_10_a10_e]

Click here to download chart.

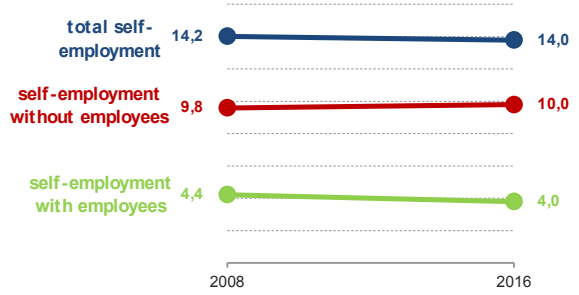
Construction suffered the largest proportional drops at Member State level. This partly reflects unsustainable construction booms before the crisis. Although the Spanish construction sector has recently started a gradual recovery, in 2016 it employed only around 40 % of the people who were employed in 2008 (1.4 million less). Ireland and Greece lost around 50 % of employment in this sector.

Self-employment

The incidence of self-employment, 14 % in 2016 ([29]), **has remained stable during the crisis and subsequent recovery in the EU**. Yet different trends have been observed since 2008 between the self-employed with or without employees. The number of self-employed people without employees has remained stable in absolute terms (around 21.5 million) while their share of total employment increased slightly. By contrast, the number of self-employed workers with employees has decreased by almost a million since the start of the crisis, without any sign of improvement during the recovery.

([29]) Across Member States, self-employment ranged from less than 8 % of total employment in Denmark to more than 20 % in Italy and Greece in 2016.

Chart 1.11
The incidence of self-employment remained stable
Self-employment, % of total employment of 15-64s in the EU



Source: Eurostat, LFS [lfsa_egaps]
Click here to download chart.

Part-time and temporary work

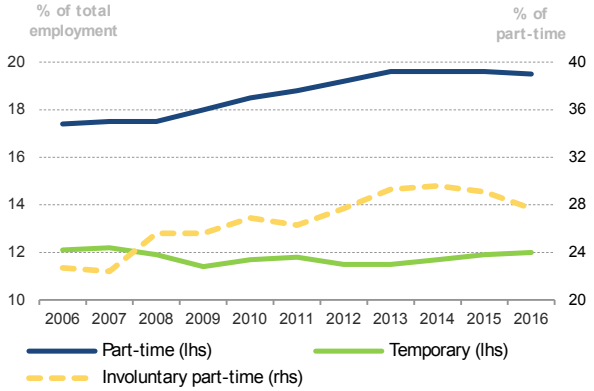
Part-time work in the EU continued to rise during the crisis. Between the start of the crisis in 2008 and 2016 (*Chart 1.12*), around 4 million extra people became part-time workers, reaching almost 20 % of total employment. In some cases, part-time work was used as a tool to raise labour market flexibility during the crisis. Yet since 2013, the percentage of part-time workers has remained stable. The increase in part-time work is part of the reason why employment has grown faster than GDP. Changes in part-time work are therefore likely to have affected productivity per person.

The rise in part-time work can partly be explained by the sectoral shift. The sectors with the biggest employment growth since 2008 ('Professional services', 'Public Administration') also had a higher incidence of part-time work. Part-time work increased in almost all sectors except agriculture, where the incidence of part-time work is now smaller than a decade ago.

Involuntary part-time work has expanded significantly in some Member States during the crisis. On a voluntary basis, part-time work can facilitate life-work balance responding to different needs over the life cycle. However, since the onset of the crisis, the percentage of involuntary part-time workers — those who would prefer a full-time job — has increased slightly in the EU as a whole. In some countries that were particularly hard hit by the crisis, such as Cyprus or Spain, the percentage of involuntary part-time workers doubled during the recession and has remained very high, above 60 % of all part-time workers.

The proportion of temporary work has remained broadly unchanged at EU level since the onset of the crisis. At Member State level, changes in the percentage of temporary workers have been small in the majority of the countries, though Croatia recorded an increase of more than 9 pps. Nevertheless, the incidence of temporary work varies widely, from over 20 % of total employment in Poland and Spain to less than 2 % in Lithuania or Romania.

Chart 1.12
Part-time work increased during the crisis, while temporary work remained stable
Part-time work, % of total employment of 15-64s in the EU

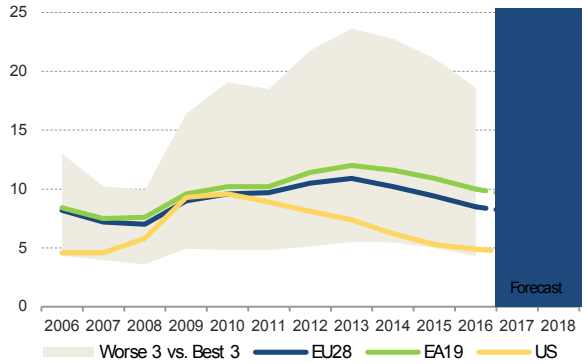


Source: Eurostat, LFS [lfsi_pt_a]
Click here to download chart.

3.4. Unemployment remains a challenge despite downward trends

In 2016, unemployment continued to fall in the EU, yet remained above pre-crisis levels. The number of unemployed people (aged 15 to 74) reached 20.9 million, of whom 16.2 million were in the euro area. In the EU, this was 5.4 million fewer than at the 2013 peak but still 4.1 million more than in 2008. The drop in unemployment rate in 2016 was the biggest since the beginning of the recovery (0.9 pps) (*Chart 1.13*). The unemployment rate reached 8.5 % (10.0 % in the euro area). The unemployment rate continued to decrease during the beginning of 2017, to 7.8 % in May. Further reductions, albeit more moderate, are expected for 2017 and 2018 (by 0.5 pp and 0.3 pp respectively) according to the European Commission Spring 2017 Forecast ([30]). The decrease in 2017 could even be stronger, as the average rate projected for 2017 (8.0 %) was reached in the first quarter.

Chart 1.13
Unemployment rate half-way towards pre-crisis rates
Unemployment rate, % of labour force



Source: Eurostat, series on unemployment [une_rt_a] and ECFIN Spring 2017 forecast
Click here to download chart.

Unemployment in the EU and the euro area is decreasing more slowly than in the US after the crisis. The US unemployment rate increased much faster, doubling from 4.6 % in 2007 to 9.3 % two years later (*Chart 1.13*), but the US did not experience a double-dip recession as the EU did. After 2009, the US unemployment rate fell steadily and in 2016, at 4.9 %, approached its pre-crisis rate, while the labour force decreased. In contrast, in the EU the protracted effects of the crisis increased unemployment for five years, especially in the euro area Member States, and in this respect the recovery remains incomplete. The steady long-term increase in the labour force (with older workers and women as the main contributors) explains why unemployment in the EU has not yet reached its pre-crisis rate, while employment is the highest ever.

([30]) See European Commission (2017b), p. 1.

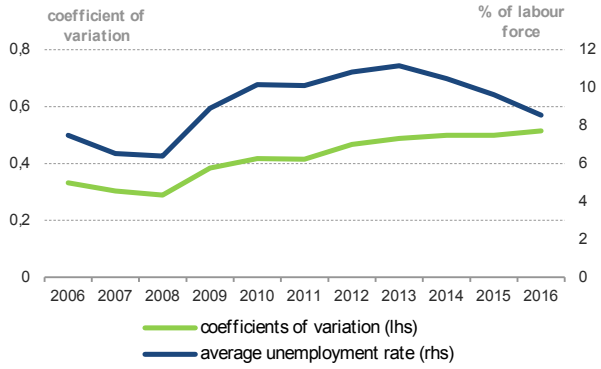
Unemployment rates decreased in most Member States in 2016. There were important reductions in Croatia (3.5 pps, mostly due to a significant decrease in long-term unemployment), and in Spain (2.5 pps, thanks to significant economic growth in 2016). Only in Estonia and Austria did unemployment rates increase in 2016, by around half a percentage point. The data for the first quarter of 2017 confirm this general downward trend.

Significant differences between Member States' unemployment rates persist. In 2016, the rates ranged from around 4.0 % in the Czech Republic and Germany to 23.6 % in Greece (*Chart 1.15*). The gap between the highest and the lowest unemployment rates narrowed, as did the non-weighted average rate for the EU. Nevertheless, if assessed by their dispersion, unemployment rates in the EU were not yet converging (*Chart 1.14*). In some of the countries with the lowest unemployment rates, signs of labour market tightness have started to appear, for example real wage growth is above productivity growth in Germany ([31]).

Chart 1.14

Reduction in average unemployment but lack of convergence

Coefficient of variation and average of unemployment rate in the EU



Note: Coefficient of variation is the ratio between the standard deviation and the average

Source: Eurostat, LFS series on unemployment [une_rt_a]

Click here to download chart.

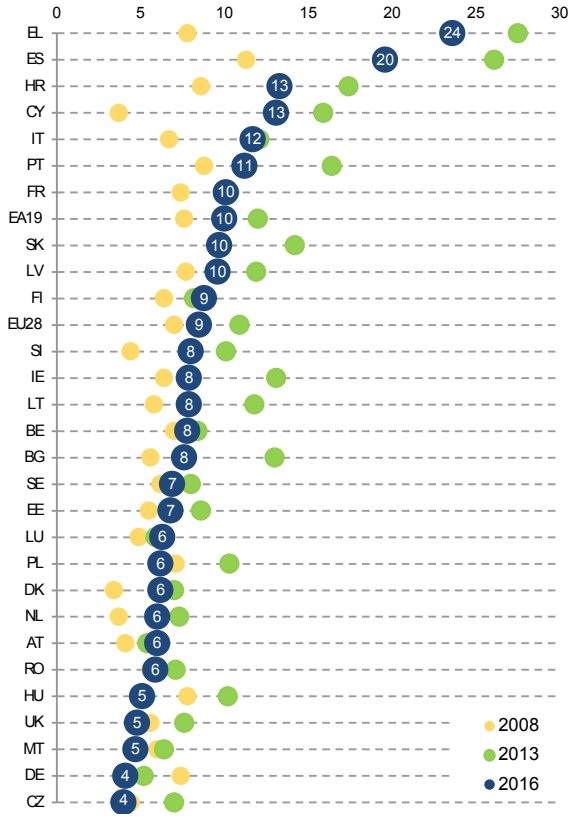
Five Member States had a lower unemployment rate in 2016 than in 2008, but several are far above the pre-crisis level. Germany achieved the biggest reduction, more than 3 pps, over this period. Despite improvements in their labour markets over the last three years, several Member States, notably Greece, Cyprus and Spain, remained far from their pre-crisis rates. However, the pre-crisis employment levels in these countries were reached on the back of unsustainable policies. At the same time, several Member States that also had big increases in unemployment during the crisis have recorded strong reductions in recent years, namely the Baltic States and Ireland.

The high youth unemployment rate remains a key challenge for the EU. Although it decreased by 5 pps to 18.7 % in 2016 compared to its peak in 2013, it has remained above the pre-crisis level of 15.9 % in 2008 (see Section 4.2 in this chapter for more details).

([31]) See European Commission (2016k) p. 44.

Chart 1.15

Unemployment rate, % of labour force



Source: Eurostat, series on unemployment [une_rt_a]

Click here to download chart.

Long-term unemployment

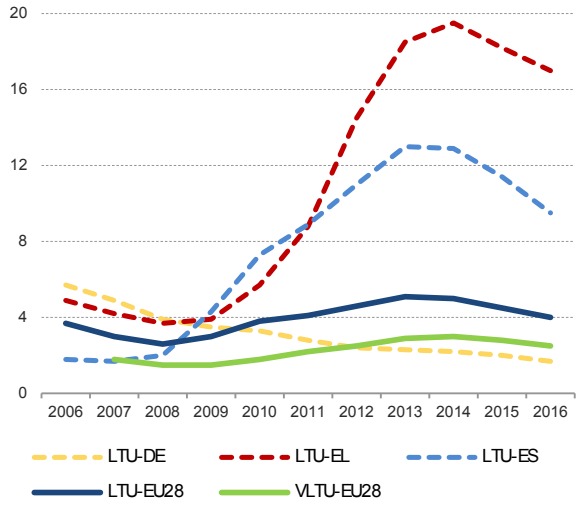
Long-term unemployment continued to decline in 2016, by 0.5 pp, but remains an important challenge for the EU. Long-term unemployment usually follows strong changes in unemployment, but with some delay ([32]). Therefore, slight decreases in long-term unemployment only started to be observed in 2014, after the start of the recovery in 2013. In 2016, about 9.6 million people (corresponding to 4.0 % of the labour force and almost half of the total unemployed) had been unemployed for more than a year and the majority of these (around 6.1 million) had been unemployed for over two years. During the crisis, the long-term unemployment rate doubled, peaking in 2014 at 5.1 % of the labour force. In 2016 the rate was still 1.4 pps above the 2008 rate (*Chart 1.16*).

([32]) See European Commission (2012), p.68.

Chart 1.16

Long-term unemployment decreasing in the EU but differences among Member States remain large

Long-term and very long-term unemployment rate for the EU and selected countries, % of labour force



Note: LTU: Long-term unemployment
VLTU: Very long-term unemployment

Source: Eurostat, series on unemployment [une_ltu_a]

Click here to download chart.

Long-term unemployment is decreasing in most Member States but important differences remain. Only two countries, Luxembourg and Austria, registered minor increases in long-term unemployment in 2016. The greatest declines were observed in the countries with the highest rates. In 2016 the highest rates were seen in Greece, at almost 17 % of the labour force, and Spain, at around 9.5 %. By contrast, the lowest rates were found in Sweden, UK and Denmark (below 1.5 % of the labour force). Compared with 2008, only seven countries had lower long-term unemployment rates in 2016. Germany saw the strongest decrease over this period (by 2.2 pps).

Underemployment and the potential labour force

There are additional signs of decreasing but persistent slack in the labour market. Underemployment ([33]) and the number of people 'available for work but not seeking employment' ([34]) in the EU fell in 2016, accompanying the reduction in unemployment. Despite three consecutive years of small decreases, rates for both groups remained above their 2008 values. In 2016, 4 % of the labour force was underemployed (around 9.5 million people) and a similar proportion was 'available to work but not seeking'. The 'seeking but not available' ([35]) group is of limited importance and has remained stable over the last decade.

The modest reductions at EU level hide diverging developments at Member State level. Changes are more significant in individual Member States than in the EU overall (*Chart 1.17*). The variations between Member States reflect the differences in their labour markets. For instance, Italy has a low activity rate while it has the highest rate of 'Available but not seeking', which includes people discouraged from job-seeking ([36]). This group accounts for almost 13 % of the current active population.

Cyprus, Spain and Greece show a high incidence of underemployment. In these countries most impacted by the crisis, the rate has increased significantly over the last few years as part-time work has been used extensively to minimise layoffs. The Netherlands also has a high rate of underemployment but here, this reflects unfulfilled needs for extra hours of work within the sizeable group of part-time workers.

([33]) Persons who work part-time, but who want to work more, and are available to do so.

([34]) 'Available for work but not seeking employment' contains, amongst others, 'discouraged' job seekers, that is, people who have given up looking for a job, even if they would like to have one.

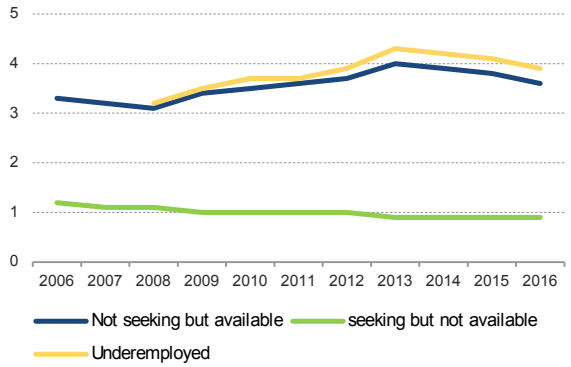
([35]) For example, students in their last year of studies, who send job applications but who have to complete their studies before accepting a job.

([36]) Discouraged job-seekers are people who have given up looking for a job because they think there is no work available.

Chart 1.17

Underemployment and 'available but not seeking' decreasing slowly in the EU

% of labour force 15-74



Source: Eurostat, LFS [lfsi_sup_a]

Click here to download chart.

Box 1.1: The labour market by the degree of urbanisation

This box explores the extent of labour market disparities between sparsely and densely populated areas, i.e. the degree of urbanisation.

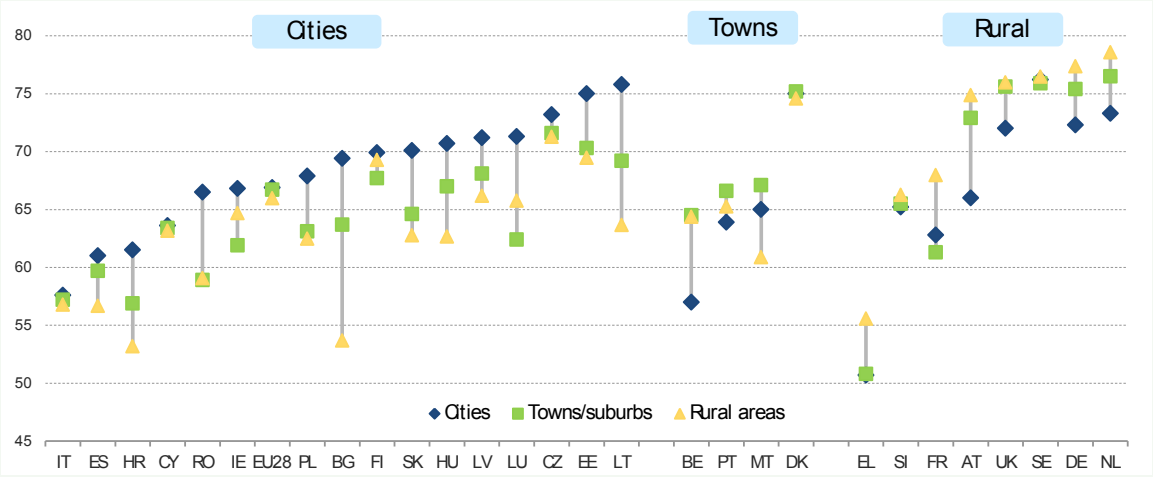
The disparities in employment rates by degree of urbanisation ([1]) are small in most Member States, but there are countries with significant gaps. In Bulgaria, for instance, the employment rate in rural areas is almost 16 pps lower than in the cities. By contrast, in Belgium the employment rate in cities, the second lowest in the EU, is 7.5 pps below the employment rate in rural areas. At EU level the employment rates of different types of urbanisation are almost the same (*Chart 1*).

In general, cities have the highest employment rates within each country. Good examples are the Baltic countries or the Czech Republic. However, the highest employment rates in the EU were located in the rural areas of some of the richest countries such as the Netherlands, Germany and Sweden.

Chart 1

Cities have the highest employment rates in most countries

Employment rate by degree of urbanisation, % of population 15-64 (2016), grouped by type of urbanisation with the highest employment rate



Note: The degree of urbanisation is a classification that indicates the character of an area based on its population density. From the highest density to the lowest: cities, towns/suburbs and rural areas are distinguished.

Source: Eurostat, LFS [lfst_r_ergau]

Usually the unemployment rate is higher in cities. The unemployment rate by degree of urbanisation shows a broadly similar pattern to the employment rate. The EU as a whole has a slightly higher unemployment rate in its cities than in its rural areas. The gap in unemployment rates between urban and rural areas is usually small. However, in Bulgaria the unemployment rate is 6.8 pps higher in rural areas than in cities. Conversely, in Austria the unemployment rate in cities is 6.8 pps higher than in the rural areas.

The crisis and the recovery did not change substantially the structure of the labour market by type of urbanisation. In general, the evolution of both employment and unemployment was similar for all the degrees of urbanisation at country level.

([1]) The degree of urbanisation is a classification that indicates the character of an area based on its population density in three different levels. From the highest density to the lowest: cities, towns/suburbs and rural areas http://ec.europa.eu/eurostat/web/degree-of-urbanisation/overview

3.5. Labour demand in the EU is becoming more dynamic

The job vacancy rate increased further in 2016 in the EU, but with strong differences across Member States. The vacancy rate ([37]) rose steadily over the last few years. The improvement in the

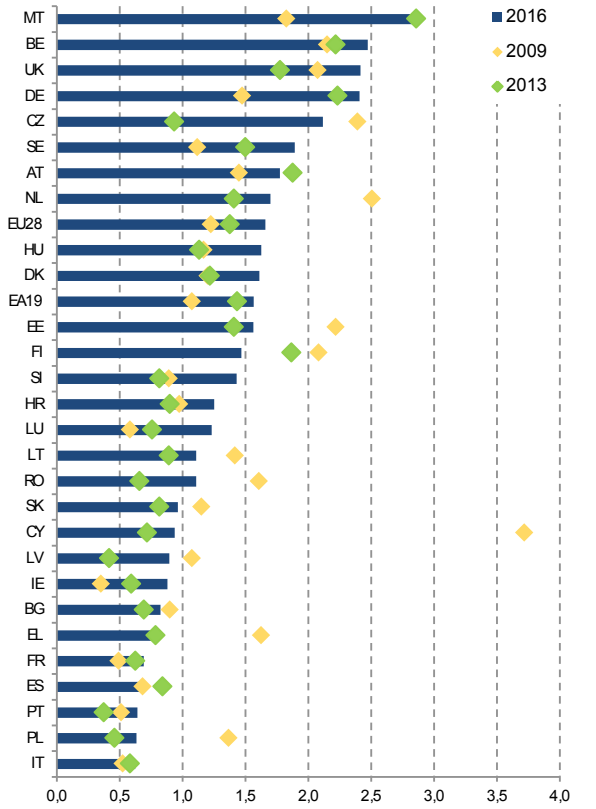
([37]) A job vacancy is a paid post that is newly created, unoccupied, or about to become vacant for which the employer is taking active steps and is prepared to take further steps to find a suitable candidate from outside the enterprise concerned; and which the employer intends to fill either immediately or within a specific period of time. Vacancies may be created because of an increase in the size of the workforce, the need to replace workers (retirement or new skills demanded) or because workers are

general macroeconomic situation, with higher employment expectations ([38]), supported this rise in 2016 to the highest level observed since 2008. In most countries, the vacancy rate increased, but the trend has been irregular, especially in some of the countries with the lowest rates such as Spain, Poland or Italy. Only Finland had a significantly lower vacancy rate in 2016 than in 2013, when vacancy rates started to recover. *Chart 1.18* shows the disparities among Member States.

Chart 1.18

Job vacancies increasing in the EU and in most Member States

Job vacancy rates: job vacancies as % of vacancies plus occupied posts



Note: 1. Data for EU28 and DK from 2010 and HR form 2012
2. Annual data based on quarterly data
3. Any company size except for IT, FR and MT only companies with at least 10 employees
4. Based on sector "Industry, construction and services (except activities of households as employers and extra-territorial organisations and bodies)" (B-S) except for IT and DK "Business economy" (B-N)

Source: Eurostat, Job Vacancies Statistics [jvs_q_nace2]

Click here to download chart.

Developments in the job vacancy rate are driven by structural as well as cyclical factors. During a downturn, there are generally fewer job vacancies as employers have fewer incentives to post them (until there is a recovery in sight), while the unemployed tend to be more inclined to accept a job offer. Structural reforms may also affect the job vacancy rate by improving workers' geographical or occupational mobility, by increasing the flow of information and by improving the quality and efficiency of public employment services. At the same time, while such structural reforms may increase the efficiency of matching people to jobs and thereby reduce the vacancy rates, better matching efficiency may also provide an incentive for employers to post more vacancies.

Labour shortages started to appear in some countries like Germany and the United Kingdom. They may occur in situations where hard-to-fill vacancies are high, or increasing strongly, reflecting low

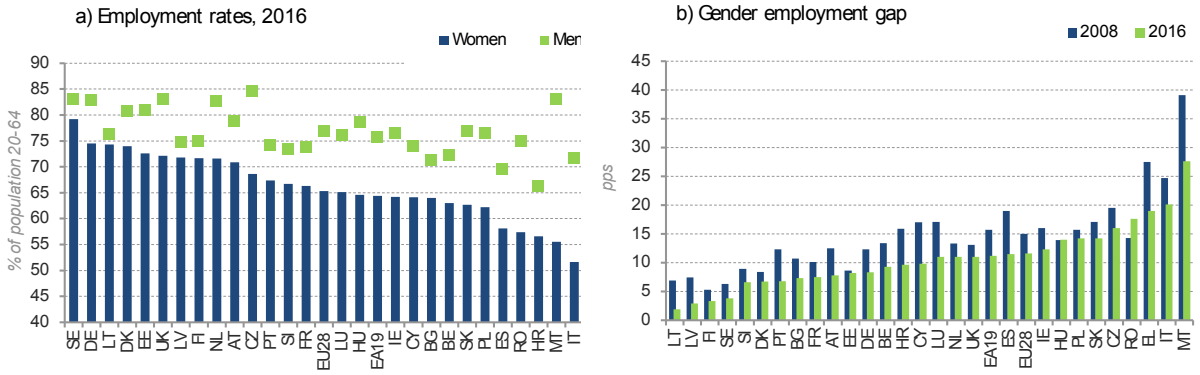
changing jobs. Job vacancies provide information on the level and structure of labour demand. They may reflect unmet labour demand, i.e. the number of job vacancies increases when unemployment is also increasing.

([38]) See European Commission (2017a), p. 15.

Chart 1.19

The gender employment gap persists

Employment rates and gap between men and women – EU Member States



Note: The gender employment gap is the difference between men's and women's employment rates

Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

unemployment and/or skills mismatches. Evidence from Public Employment Services (PES) ([39]) shows shortages of software developers, welders and doctors in several Member States.

Additional indicators confirm the more dynamic EU labour market. For example, the job finding rate ([40]) is rising in the EU but remains below the pre-crisis rate. In addition, transition rates ([41]) from unemployment to employment have risen in most of the EU countries since 2013 and particularly in Estonia and Croatia. The chances of ending an unemployment spell are especially strong in Denmark but very weak in Greece.

4. Labour Market Situation by Gender and Age Group

4.1. Women's participation in the labour market is increasing but gender differences persist

The employment rate of women reached another record high in 2016. It stood at 65.3 %, (corresponding to 98.8 million) in 2016 for the age group 20-64. With a 1 pp increase (1.4 million women), dynamics remained similar to the previous year. The strongest increase was for women aged 55-64 (*Chart 1.21*). Compared to the EU 2020 target of an overall employment rate of at least 75 % by 2020, there remains some way to go.

However differences across Member States remain significant. While Sweden (79.2 %) and several other countries (particularly the Northern and Baltic Member States) recorded employment rates for women above 70 %, Greece (46.8 %) and several other Southern European Member States had female employment rates below 60 %. Nevertheless, between 2013 and 2016, all Member States, except Romania (where it remained unchanged) showed increases in the employment rate of women; the highest was recorded for Malta (5.5 pps). Over the year to 2016, the employment rate of women increased in 21 Member States, with Malta in the lead, increasing by 2 pps. In the remaining Member States that saw a decline, the largest was in Croatia by 1.4 pps. The overall improvement seen in the employment rate of women in the EU may be partly due to the effect of the crisis in some Member States which encouraged increased engagement by women in the labour market. Additionally, older workers but particularly older women are extending their working lives.

([39]) European Commission (2016a), p. 6.

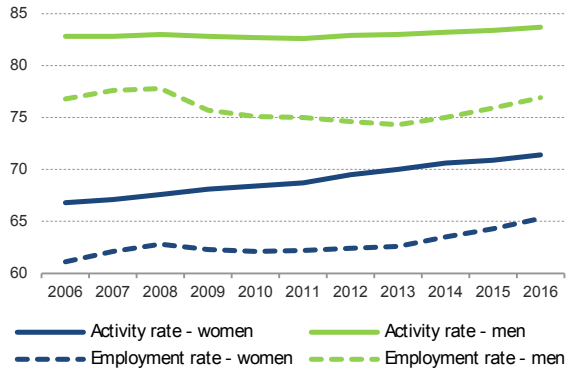
([40]) The rate of unemployed people who find a job in a given period.

([41]) The rate of people who change their working status (employment, unemployment, inactive) in two consecutive periods of time.

Chart 1.20

Women's activity and employment rates in the EU below men's activity and employment rates

Activity and employment rate in the EU, % of population 20-64



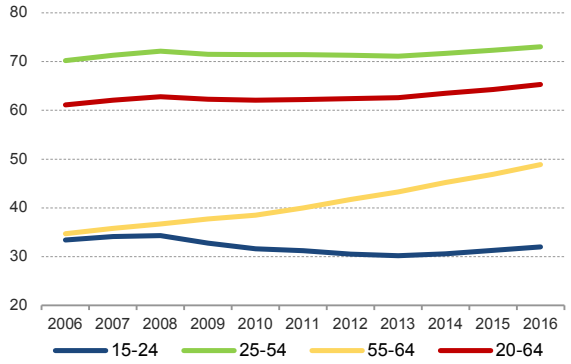
Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

Chart 1.21

Women 55 – 64 years old show the strongest employment rate increases

Employment rates women in the EU, % of population



Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

The gender employment gap remained the same at the EU level in 2016. Despite an increase in the employment rate of women 20-64 years old, the same increase in the male employment rate (1 pp) to 76.9 % has led to no change in the gap (11.6 pps) between 2015 and 2016 (*Chart 1.20*). The gender gap in the share of part-time work also remained broadly the same, with 31.4 % of women involved in part-time work versus 8.2 % of men ([42]).

The gender employment gap narrowed in half of the Member States and widened in the others between 2015 and 2016. The strongest increase in the gender employment gap was in Cyprus (1.5 pps) followed by Finland. The largest decrease was in Slovenia (2 pps) followed by Latvia. Malta, despite narrowing its gap steadily (by 19.3 pps since 2004), remains the Member State with the highest gap, with a female employment rate 27.6 pps lower than the male employment rate in 2016. The next highest gender employment gaps are observed in Italy (20.1 pps lower) and Greece (19 pps lower) (*Chart 1.19*). The smallest gaps are to be found in the Northern and Baltic Member States (2 - 4 pps). Geographical differences reflect different policy mixes to reconcile work and family responsibilities. For example, suitable child care facilities are more affordable and easier to access in some Member States.

The increase in female employment is mainly linked to rising employment rates of older women, probably linked to educational profiles. Many studies ([43]) show that higher level education correlates with higher labour market participation and later retirement. The evidence shows that women in the EU in general, especially those aged 55-64 (see section on older workers below) are becoming increasingly qualified thanks to higher educated young female cohorts.

([42]) See employment rates in FTE (Full-time equivalent) in the Statistical Annex.

([43]) See OECD (2011).

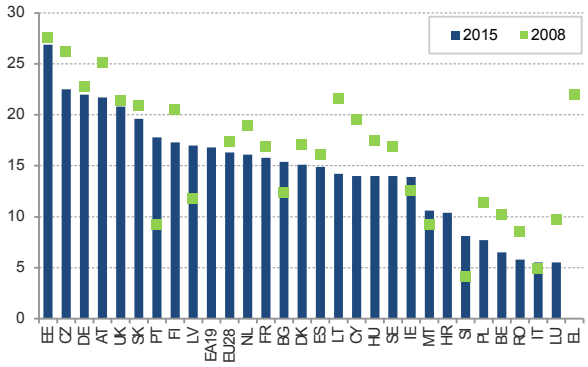
The pay gap persists

A strong albeit narrowing gender gap in pay persists in the EU ([44]). The average gross hourly earnings of male employees were about 16 % higher than those of female employees in 2015. This represents a declining gap since 2012 (*Chart 1.22*). This gender pay gap is due to a number of factors. In particular, management and supervisory positions are more likely to be held by men, while women are more likely to take time off work to take care of dependent family members or relatives. Also, women are more likely to have temporary work (12.2 % of women versus 10.4 % of men in 2016) and to be in less well paid professions and sectors ([45]).

Chart 1.22

Men are still earning more than women

Gender pay gap between men and women – EU Member States, % difference



Source: Eurostat, earnings survey [earn_gr_gpgr2]
Note: Data for IE, MT and HR from 2014

Click here to download chart.

The gender pay gap narrowed in most Member States, however wide differences remain. In most Member States for which data are available the gender pay gap decreased in 2015, with the strongest decreases to be found in Lithuania, Poland, and Cyprus (with over 6 pps). Portugal showed by far the strongest increase (up by 6 pps). In 2015, Estonia recorded the widest gender pay gap ([46]) at 28 %, though this gap is smaller than in 2007. Slovenia recorded the smallest gender pay gap (just below 3 %).

The overall gender earnings gap stood at 41 % in the EU in 2010 (the most recent observation). The overall gender earnings gap measures the impact of three combined factors on the average earnings of all women of working age - whether employed or not employed - compared with men. The three factors are: average hourly earnings, the monthly average number of hours paid (before any adjustment for part-time work) and the employment rate.

([44]) Unadjusted, not taking into account individual or sectoral characteristics. See also European Commission (2016h) for an analysis that highlights that women are most likely to be over-represented at the bottom of the wage distribution compared to men.

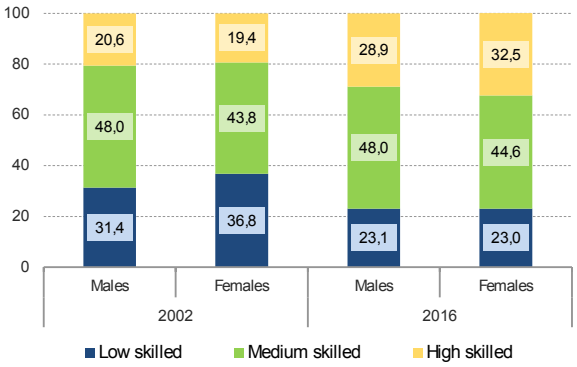
([45]) Correcting for such characteristics may lead to significantly lower estimates for the gender pay gap. For instance, a recent analysis for Germany with data for 2014 finds that the uncorrected gender pay gap of 22.3 % narrows to a (still substantial) 5.8% when taking into account differences between men and women in a series of characteristics, including the type of profession and sector, volume of employment (part-time etc) as well as educational attainment, see Finke et al (2017).

([46]) Among the Member States for which data are available.

Chart 1.23

Women have become more highly qualified than men

Education attainment in the EU, % of population 25-64



Source: Eurostat, LFS [edat_lfsa_03]

Click here to download chart.

Gaps persist although women are more qualified than men. For the first time in 2016, a higher proportion of men have only lower level, middle or upper secondary level education (*Chart 1.23*). 2016 was the first year in which a greater proportion of men than women were considered low skilled (23.1 % vs 23 %). Despite this, both gender employment and pay gaps continue to favour men. Because of their better educational profiles, women's increasing labour market participation can significantly boost GDP and productivity in the EU. It has been estimated that the employment gender gap has cost the EU up to 10 % of GDP ([47]).

4.2. Developments by age groups: older workers and youth

Older workers are staying longer in the labour market

The employment rates of older men and women have been steadily increasing. For older workers (55 – 64 years old), employment rates by 2016 stood at 55.3 % in the EU and the euro area (62 % for men and 48.9 % for women). This represents a solid increase of 2 pps since 2015. Despite this rise, the employment rate of older workers is still 23.5 pps below that of workers aged 25-54 years old. However, the steady increase is projected to continue against the background of demographic change. Older workers (34.5 million people) accounted for 16.9 % of total employment among those aged 20-64 in 2016. This proportion is projected to rise to 19.5 % in 2060 ([48]) as the workforce ages. This reflects the rising participation of younger generations of women as well as the effects of pension reforms in many countries.

([47]) See Cuberes and Teignier (2014).

([48]) See European Commission (2015c).

Box 1.2: The gender employment gap by degree of urbanisation

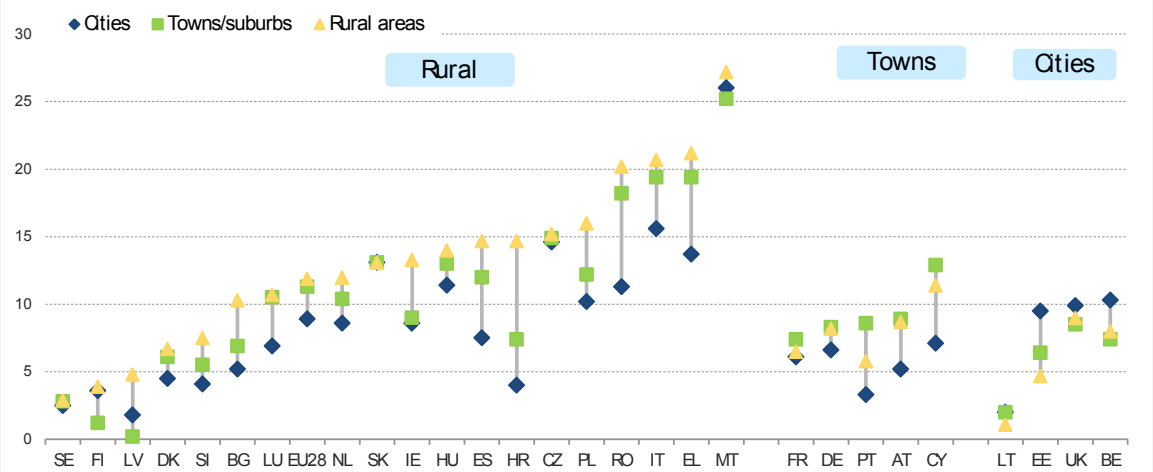
This box explores the extent of the gender employment gap disparities between sparsely and densely populated areas, i.e. the degree of urbanisation.

At the EU level the gender employment gap is lower in cities where employment rates are also generally higher (see Box 1.1). Data breaking down the gender employment gap by level of population density show the difference in the gap by the degree of urbanisation, see chart below. It is higher but similar in both towns/suburbs and rural areas compared to cities. There are important differences when looking at this by Member State. In 19 Member States, the employment gap is the highest in the least populated rural areas. In Croatia, Romania, Spain and Greece the gender employment gap is much lower in the cities compared to rural areas (up to 10.7 pps difference for Croatia). For a number of Member States including Sweden, France and Lithuania there appears to be no significant difference in the employment rate by the degree of urbanisation.

Chart 1

The gender employment gap is generally smaller in cities compared to rural areas and towns/suburbs

The gender employment gap by degree of urbanisation, % of population 15-64, grouped by type of urbanisation with the highest gender employment gap



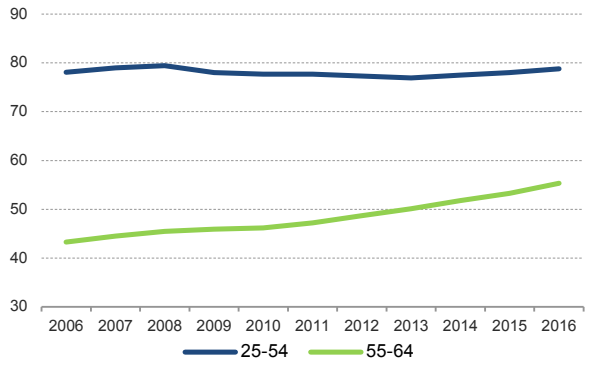
Note: The degree of urbanisation is a classification that indicates the character of an area based on its population density. From the highest density to the lowest: cities, towns/suburbs and rural areas are distinguished.

Source: Eurostat, LFS [lfst_r_ergau]

Chart 1.24

Employment rate of older workers 55-64 years old significantly behind that of workers aged 25 - 54

Employment rate in the EU, % of population

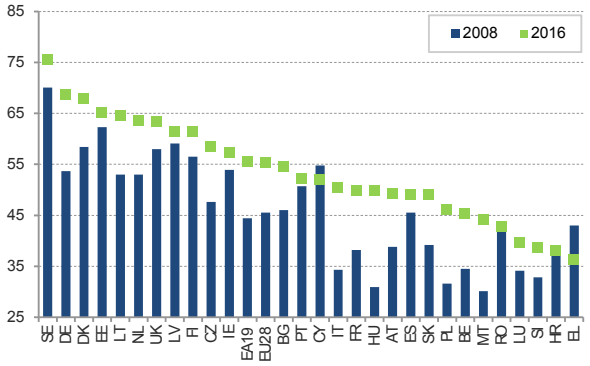


Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

Member States vary widely in the employment rate of their older workers. Differences in rates and dynamics partly reflect differences in the overall labour market situation, for example different retirement ages and their evolution. Sweden has by far the highest employment rate: 75.5 % of older workers aged 55-64 were employed in 2016. By contrast, in Greece the rate was only 36.3 %.

Chart 1.25
The employment rate of older workers is increasing in most Member States
Employment rate in the EU, % of population 55-64



Source: Eurostat, LFS [lfsi_emp_a]
Click here to download chart.

Inactivity among older people in the EU has declined in 2016. Since 2015, it has declined by 1.8 pps. In 2016, 40.9 % of people aged 55-64 were inactive. Inactivity rates ranged from just over one fifth in Sweden to 60 % in Slovenia, and they declined in all Member States except for Luxembourg and Romania. Reasons for not working have been changing over the years. Retirement is now the explanation for less than half of those concerned at EU level: the steady decrease may reflect the impact of pension reforms, changed needs and lifestyle choices. However, at Member State level, proportions giving this reason range from around 90 % in the Czech Republic to only around one fifth in Spain (21.4 %). Retirement and disability keep men from looking for work more often than women, while the reverse is true for family and caring responsibilities.

Older workers are more likely to have part-time contracts than workers aged 25-54, but they are less likely to work part-time than younger workers. Just over 17 % of workers aged 25-54 had part-time contracts compared with 22.1 % of older workers (aged 55-64) and 32.4 % of young people (aged 15-24) ([49]).

Temporary contracts are not common among older workers. Only 5.3 % of older workers aged 55-64 had such contracts ([50]) in 2016. They are 5 pps less likely to have temporary employment than prime-aged workers (aged 25-54) and 35.5 pps less likely than younger workers (aged 15-24). For younger workers temporary employment as a proportion of those working is 40.8 %, an increase of 0.5 pps compared to the previous year, and this rate has been steadily rising since 2008.

Young people in the labour market

The last three years have seen improvements in the labour market situation of young people. Young people aged 15-24 were particularly affected by the crisis as their unemployment rates skyrocketed, especially in Greece and Spain, and their employment rates decreased. Their labour market performance has traditionally been very sensitive to the economic cycle and, as they are more likely to hold temporary contracts and have less employment experience ([51]), they were the first to be affected by the economic slump. The situation of young people was at its worst in 2012 and 2013 but then started to improve (*Chart 1.26*).

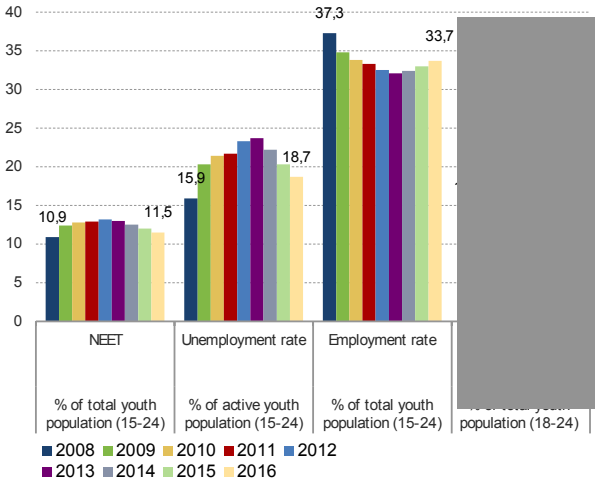
In 2016, the youth unemployment rate in the EU fell by 1.6 pps, to 18.7 %. The corresponding reduction of 405 thousand young people aged 15-24 is due to decreases in youth unemployment in most Member States, despite increases in five Member States. In line with these developments, the youth employment ratio increased at EU level by 0.7 pps to 33.8 % of the youth population. Most of the Member States showed higher youth employment rates in 2016 than in previous years.

([49]) This corresponds with findings in Chapter 3 , figures vary due to the difference in age-groups used.
([50]) This corresponds with findings in Chapter 3 Section 2 although figures vary due to the difference in age-groups used.
([51]) This is covered in more detail in Chapter 3.

Chart 1.26

The labour market situation of young people is improving further

Main indicators for young people 15 - 24 - EU



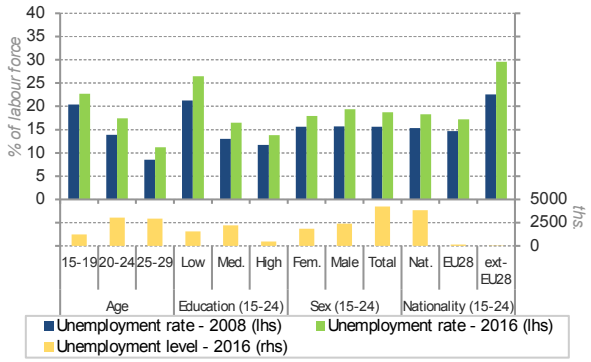
Source: Eurostat, LFS [edat_lfse_20, une_rt_a, lfsi_emp_a, edat_lfse_14]

Click here to download chart.

Chart 1.27

Unemployment rate for 15 – 24 year olds still significantly above 2008 levels for all groups

Unemployment rates (young) – age, skills, gender and nationality



Source: Eurostat, LFS [lfsa_urgan, lfsa_urgaed, lfsa_pganws]

Click here to download chart.

In 2016, the share of young people aged 15-24 in the EU who were not in employment, education or training (NEET) continued to decline to 11.5 %. This reduction in the NEET rate was due mainly to unemployed NEETs moving into work: the share engaged in education and training increased to 69.4 %. The slight increase in the proportion in education and training and fall in discouragement in 2015 provide further confirmation that young people leaving unemployment are moving into work. For young people aged 15-24 the employment rate continued to increase in 2016, reaching 33.8 % and the share of unemployed (unemployment ratio) declined further to 7.7 %. Inactivity for those aged 15 - 24 decreased by 0.1 pp to 41.6 %. However, an overall strong increase in inactivity over the decade reflects a reduction in early school leaving for those aged 18-24; the proportion in this age group leaving school early fell to 10.7 %. It thus nearly reached the Europe 2020 target to reduce early school leaving to less than 10 %. See more on NEETs in *Box 1.3* below.

Box 1.3: A look at young people by age sub-groups

A look at young people's labour market-related and education-related performance in the EU under three age sub-groupings (15-19s, 20-24s and 25-29s) reveals distinctly different trajectories. The focus is on developments affecting young people who are "not in employment, education or training" (NEET) ([1]). Having only low-level education has been identified as the main risk factor for being NEET ([2]); young people with lower education levels face a three times greater risk than those with tertiary education ([3]).

NEET rate at its lowest recorded rate for 15-19 olds in the EU

Participation in education and training increased further to 90 % ([4]) for the youngest subgroup in 2016. The proportion of young people aged 15 - 19 who are NEET continued to decline in 2016 by 0.2 pps and stood at 6.1 %, the lowest ever recorded rate. The unemployment rate of young people (those not working as a proportion of the active population) declined strongly by 1.9 pps (now 22.7 %) while, the employment rate increased by 0.5 pps to 15.6 %.

Continued improvements for young people aged 20-24

For the 20-24 year old age group, the NEET rate continued to decline in 2016 from its crisis-related 2012 peak but remains high. The NEET rate was 16.7 % in 2016 in the EU and is particularly high in Italy, Romania, and Greece (23 % - 29 %). Having improved over the course of the recovery, this age group's unemployment rate fell to 17.4 % in 2016, the lowest rate since 2009 when it was 18.2 %. Youth employment is increasing: it was 50.7 % in 2016 compared with 47.7 % in 2013. The UK, the Netherlands, Austria and Malta have the highest employment rates, ranging from 66-70 %, while Greece and Italy have the lowest employment rates (below 30 %). Those combining work and study have steadily increased since 2011 to a rate of 17.2 % in 2016, the highest level ever recorded for the EU. This improvement has been driven in particular by developments in a few larger Member States. For example Spain, France ([5]), Germany and Austria saw increases of around 4 pps or more whereas in almost half of the Member States, the number of young people combining work and study has declined. For 20-24 year olds, having the skills needed for work or for effectively bridging the transition from study to work is particularly important ([6]). By combining work and study younger people are both increasing their educational attainment and boosting their work experience, both of which will make their transition into full-time work easier. As for the younger age group, there was a steady rise in participation in education and training. There was a particularly strong increase (1.7 pps) between 2012 and 2013. Participation in education and training accounted for half of the young people in this age group in 2016. This is an important development and it could be linked to the increase in tertiary level education discussed in Section 4.3.

Young people 25 -29 have higher NEET rates but also higher employment rates

Almost one in five 25-29 year-olds was classified as NEET in the EU in 2016. After a steady increase in the NEET rate over the decade, this rate started to come down in 2013 with the economic recovery but remains higher than for younger age groups. At the same time, the older subgroup appears to have better labour market performance: their unemployment rate (11.2 %) in 2016 was much lower than the rate for those aged 20-24 (by 5.5 pps) ([7]) while their employment rate at 73.2 % was around 23 pps higher than it is for those in the 20-24 age group (ranging from around 54 % in Italy to almost 88 % in Malta). This puts the NEET performance of this age sub-group into perspective.

Around a fifth of this age group were in education and training in 2016 ([8]). There is wide variation between Member States in this respect. The proportion ranges from just under 5 % in Romania to nearly half the corresponding population in Denmark. Despite the lower importance of education and training for this age sub-group, combining work and study received a particular boost from 2012 to 2013 and is higher than before (13.6 % in 2016, compared to 11.8 % in 2012).

([1]) The NEET rate is used as the main labour market indicator to measure the performance of the young people covered by the Youth Guarantee (YG). The aim of the YG is to improve both education and work outcomes of those aged 15 – 24 in the EU; it extends to 29 year olds in about half of the Member States.

([2]) Eurofound (2012)

([3]) Eurofound (2016)

([4]) Source EUROSTAT [edat_lfse_18]

([5]) France has a break in time series accounting in part for this sharp increase.

([6]) European Commission (2016i)

([7]) It ranges from around 37 % in Greece to less than 6 % in Malta.

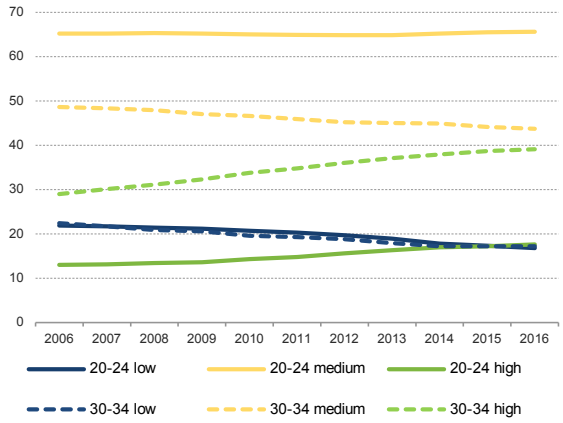
([8]) Challenges young people including in this age group are facing in the labour market are covered in chapter 3.

4.3. Increased participation in education and training is leading to higher education attainment levels ([52])

Overall participation in education has stabilised in the last year. For young people aged 15-29 participation in both formal and non-formal education has been levelling off. It may be that participation in education has reached a threshold, where those facing barriers such as caring responsibilities or disabilities will need more targeted efforts to engage them in education or training. The increased participation in education and training for all age groups and the increased proportion of young people aged 20-29 combining work and study appears to have coincided with the roll-out of the youth guarantee in the EU ([53]).

There are now more young people with tertiary education than those with no more than lower secondary education (*Chart 1.28*)**.** This partly reflects the trend of increased participation in education and training highlighted above. *Chart 1.28* shows the steadily declining proportion of young people finishing their education at lower secondary level (less than 20 % in 2016). Similarly, of those aged 30-34 the proportion finishing their education at upper secondary level is decreasing. For all age sub-groups there are increasing proportions of young people who have completed tertiary education. The EU 2020 target for 40 % of 30-34 year-olds to achieve a tertiary qualification has very nearly been met (39.1 % in 2016).

Chart 1.28
Educational attainment levels are improving
Educational attainment, % of population



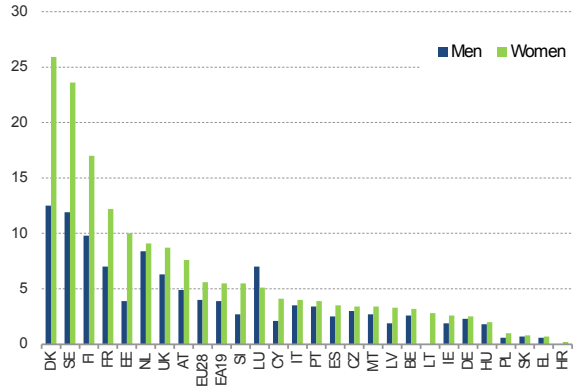
Source: Eurostat, LFS [edat_lfse_03]
Click here to download chart.

Participation of older people in education and training is low but increasing. In 2016, in the EU, 6.1 % of people aged 55-64 were engaged in education and training, a slight (0.1 pp) increase compared to the previous year. Before that, a strong increase in adult participation in learning (education and training) had been observed, especially for women, following a dip in 2011. Older women are now 1.8 pps more likely to be in lifelong learning than older men.

Participation in adult learning is particularly prevalent in the Nordic Countries. In Denmark, Sweden and Finland 20 % or more of people over the age of 55 take part in adult learning, whereas the comparable figure for around half of the Member States is less than 5 % (*Chart 1.29*).

([52]) Trends in educational attainment and skills will also be discussed in Chapter 3.
([53]) European Commission (2016d).

Chart 1.29
Large disparities in older people's participation in adult learning among EU Member States
Participation in education and training, % of population 55-64



Source: a
Click here to download chart.

5. IMPROVING BUT CHALLENGING SOCIAL SITUATION IN THE EU

Clear signs of a general improvement in the social situation are emerging in the EU. In 2015 ([54]), 118.8 million people lived at risk of poverty or social exclusion. This was 4.8 million fewer people than at the peak of 2012. Moreover, disposable income inequality stabilised in 2015. Continued favourable developments in the labour market and household incomes in 2016 are likely to have led to improvements in the social situation. Still, divergences across the EU remain marked, and the risk of poverty or social exclusion increased in several Member States, and by 2015 disposable income inequality intensified in around ten of them.

The economic situation seems to indicate that improvements which started in 2013 continue. The latest available data reflect improvements in the social situation in 2015 as regards disposable income inequality, monetary poverty and work intensity. Improvements may be expected to have continued since then, given the positive economic and employment developments and improved household income situation through 2016. However concerns about the sustainability of recent progress remain, at least for the most vulnerable groups.

The most recent available data on key social developments have already been covered in the 2016 edition of the ESDE ([55]). Therefore this section briefly summarises previous findings; adds additional perspectives on earnings, poverty and disposable income inequality (from the EU-SILC and Earnings Statistics); includes new results for 2014 from ESSPROS and for 2016 from National Accounts; and gives early estimates of material deprivation from EU-SILC (2016). The next complete update for 2016 data is scheduled for autumn 2017 ([56]).

5.1. Household income is rising in line with labour market improvements

Disposable household income benefits from income from work

The disposable income of households in the EU increased further in 2016. Having dropped to a low point in 2012-2013, gross disposable household income (GDHI) ([57]) has since then been increasing again in real terms. Household income benefited from the expansion in economic activity and improved labour

([54]) Note on the **reference year**: EU-SILC data, used in poverty and inequality indicators, reflect incomes of the previous year (except for the UK and Ireland where incomes refer to the interview period). EU-SILC data also reflect activity status of the previous year. However, the survey year is chosen as a reference year (not the income year). This choice is for consistency with indicators commonly used: Eurostat indicators and most of EMPL monitoring tools and reports use the survey year. Moreover AROPE combines AROP, VLWI (previous year) and SMD (survey year).
The 2015 reference year is based on EU-SILC 2015, which reflects the 2014 income year and activity status in 2014.

([55]) See previous report European Commission (2016f), p. 38-43.

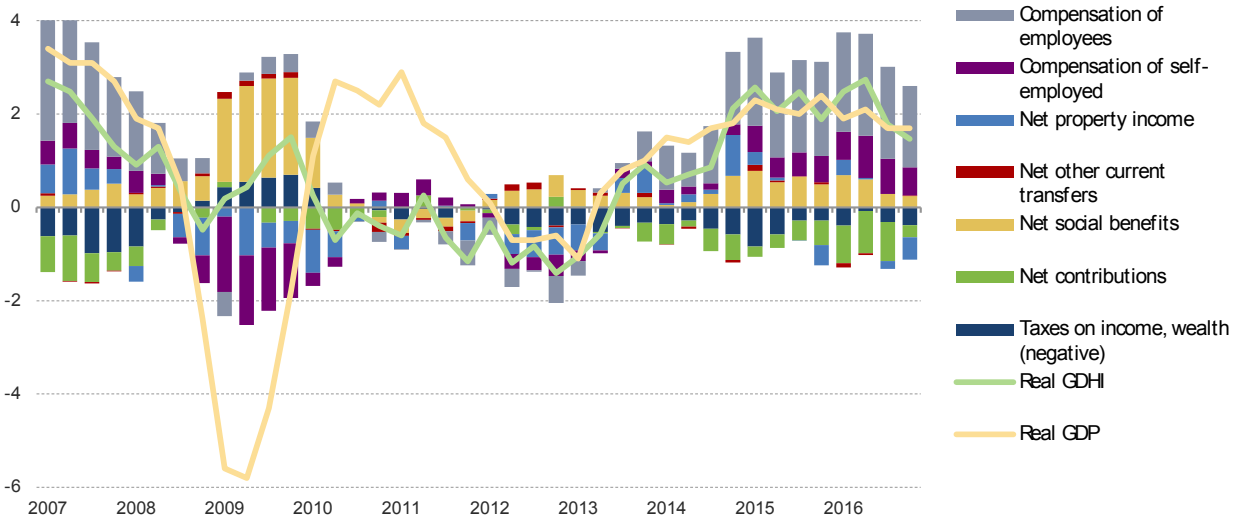
([56]) Eurostat is working on improving timeliness of the EU SILC data and on providing flash estimates for income 2017.

([57]) Gross disposable household income (GDHI) measures market income adjusted for taxes and social transfers.

Chart 1.30

Disposable household income supported by income from work and social transfers

GDP and GDHI growth (% change on previous year), and contribution of GDHI components (pps), EU



Note: Real GDHI growth for the EU is DG EMPL estimation, and it includes Member States for which quarterly data are available (19 Member States: AT, BE, CZ, DE, DK, EL, ES, FI, FR, HR, IE, IT, NL, PL, PT, RO, SE, SI, UK, which account for at least 90 % of EU GDHI).
The nominal GDHI is converted into real GDHI by deflating with the deflator (price index) of household final consumption expenditure. The real GDHI growth is a weighted average of real GDHI growth in Member States.

Source: Eurostat, National Accounts [nasq_10_nf_tr, namq_10_gdp, namq_10_pe]; Data non-seasonally adjusted; DG EMPL calculations

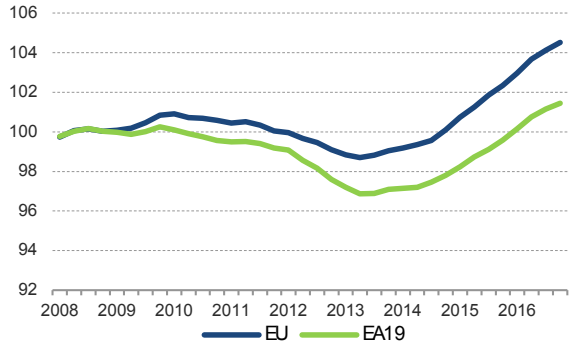
Click here to download chart.

market conditions ([58]), and by 2015 it had returned to its previous peak of 2008-2009. In the euro area, gross disposable household income, which had dropped much more strongly than in the EU in 2013, returned to its previous peak only in 2016 (*Chart 1.31*). In the EU as a whole, GDHI annual growth remained above 2 % in real terms in 2016 (*Chart 1.30*). Nearly all Member States saw growth in household incomes.

Chart 1.31

Household income returns to its previous peak in 2015 in the EU and in 2016 in the euro area

GDHI growth (cumulative change – index 2008=100), EU and EA



Note: EU is DG EMPL estimation, and it includes Member States for which quarterly data are available (19 Member States: AT, BE, CZ, DE, DK, EL, ES, FI, FR, HR, IE, IT, NL, PL, PT, RO, SE, SI, UK, which account for at least 90 % of EU GDHI). The nominal GDHI is converted into real GDHI by deflating with the deflator (price index) of household final consumption expenditure.

Source: Eurostat, National Accounts [nasq_10_nf_tr, namq_10_gdp, namq_10_pe]; Data non-seasonally adjusted; DG EMPL calculations

Click here to download chart.

Households continued to benefit from higher income from work, while increases in social benefits moderated. Both components contributed to the continued improvement in the financial situation of EU households in 2016. Labour income had resumed its growth in 2014, mainly due to the recovery in the labour market. Increases in social benefits, while moderating in the second half of 2016, still raised the disposable income of households. Higher social contributions (together with taxes which have been increasing consistently except in the 2009 downturn) weighed down on it in times when incomes grew.

([58]) See European Commission (2017a), p. 33.

The contributions of property income and other transfers have been mixed in recent years (*Chart 1.30*) ([59]) ([60]) ([61]).

Moderate increase in earnings

Earnings have been increasing at a moderate pace in the EU, but their dynamics and level have varied widely among Member States. The annual net earnings of a single person without children earning an average wage rose moderately in most Member States between 2012 and 2015 ([62]). Despite significant growth, the average net annual earnings of a single worker (adjusted for price differences) in Bulgaria, Latvia, Lithuania, Malta and Romania remain on average 30 % lower than those of a single worker in the Netherlands or Luxembourg.

The gap between gross and net earnings is wider in some Member States than in the others. Annual net earnings of a single person without children (after deduction of social contribution and taxes) ranged from around 60 % of gross earnings in Belgium and Germany, to around 80 % in Estonia, Ireland and Malta. A broadly constant gap since 2007 between gross and net earnings at EU level masked differences in dynamics across Member States. For instance the gap increased most in Ireland and Portugal, and decreased in Hungary (*Chart 1.32*).

([59]) Eurostat publishes among other things the real adjusted GDHI per capita in Purchasing Power Standards (PPS) and in % change on previous period. It is adjusted by covering transfers in kind (including education and health), and is divided by the purchasing power parities of the actual individual consumption of households and by the total resident population.
Yearly http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&pcode=tec00113&language=en and http://ec.europa.eu/eurostat/documents/499359/499434/Annual+key+indicators+by+Member+States/4fcfd4c5-368b-4f0d-b487-6539332c797e.
Quarterly seasonally adjusted in % change on previous period
http://ec.europa.eu/eurostat/documents/499359/499434/t%2B120+NR+Data+no+links+new+template+EN.xls/97e6f0bd-02f0-4bae-862d-a11192a45a40.

([60]) For a detailed discussion of disposable household income from work and wealth across different household compositions, based on the Household Finance and Consumption Survey (HFCS), see European Central Bank (2016b).

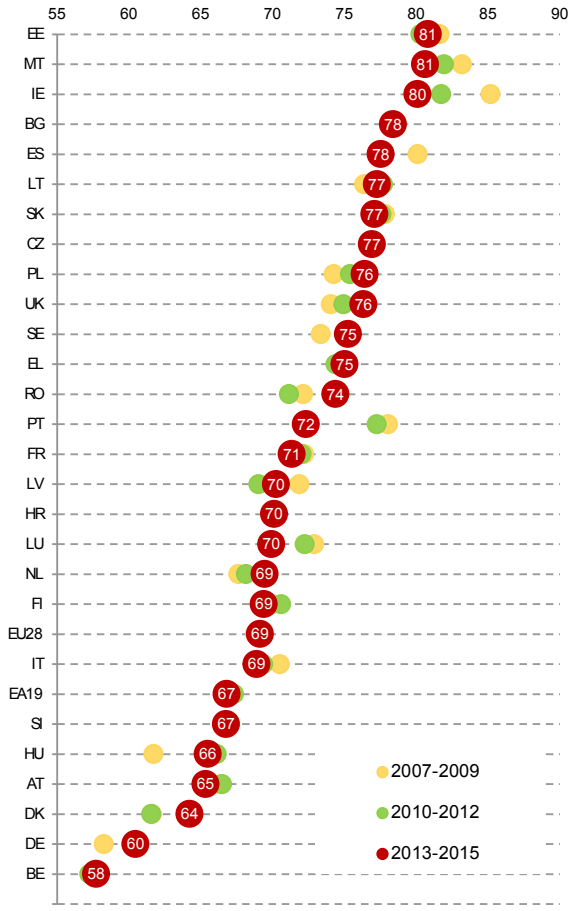
([61]) The following paragraphs will look briefly at trends in two main components of income, based on different sources, namely earnings from Earning Statistics and social protection from ESSPROS.

([62]) The annual net earnings included remuneration in cash paid by the employer (with income taxes and employees' social security contributions deducted from the gross earnings) plus family allowances.
The amount of taxes, social security contributions and family allowances, and therefore the ratio of net to gross earnings, depends on the personal situation of the worker. That is why Earning Statistics consider different family situations.
For clarity of interpretation, the average single worker is selected.

Chart 1.32

Wide gap between gross and net earnings in some Member States

Net annual earnings as % of gross annual earnings, single person without children with average wage (average of three years), EU, EA and Member States



Note: No data for UK

Source: Eurostat, Earning Statistics [earn_nt_net]; DG EMPL calculations

Click here to download chart.

More social expenditure going towards old-age pensions and health needs

Social protection continued to play an important role in supporting household incomes in the EU. Social protection played a major role in stabilising incomes between 2007 and 2009. The subsequent reduction in social expenditure in 2011-2012, for all categories of people benefiting from social protection, was pro-cyclical. Social expenditure started to accelerate again in real terms from 2013 ([63]). Its rise exceeded 2 % in 2015, driven by in-kind expenditure ([64]).

Social protection shifted from cyclically-driven (unemployment) to structural expenses (old-age pensions and health-related protection). The increases in social expenditure in 2013 and 2014 (*Chart 1.33*) were mainly due to a further increase in spending on old-age pensions (see Chapter 4) driven partly by demographic factors, and partly by an increase in spending on health. By contrast, expenditure on unemployment stabilised in 2013 and declined in 2014, as the economic environment improved (see Chapter 3). Expenditure on families, housing, and combating social exclusion remained stable.

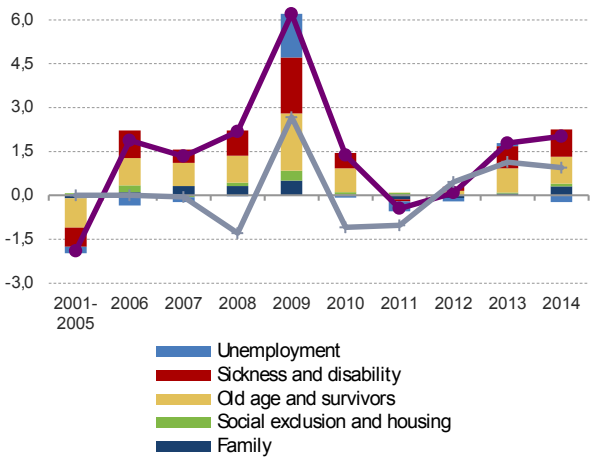
([63]) To reflect trends in real social expenditure, the harmonised index of consumer prices (HICP) is used as a deflator. It allows estimation of the trend in the overall real value or purchasing power of social expenditure. The HICP is a price index that reflects changes in a basket of goods and services, which appears closer to the actual expenditure on consumption of households than the deflator of household consumption from the National Accounts (which also includes imputed rents, for instance).

([64]) The available National Accounts data disaggregate expenditure by in-cash and in-kind, but do not disaggregate it by function. The National Accounts data on government expenditure are available till 2015, as covered by the previous report. For more details, see previous report European Commission (2016f), p. 37.

Chart 1.33

Social protection spending increased, mainly due to old-age pensions and health-related expenditure

Growth in social protection expenditure (% change on previous year, in real terms) and contribution by functions (pps), EU



Note: The nominal expenditure is converted into real expenditure by deflating with the Harmonised Index of Consumer Prices (HICP). Inflation reflects the differential in HICP growth from one year to the other. When inflation is constant it has no impact, when inflation is declining it contributes positively, when inflation increases it contributes negatively.

Source: Eurostat, ESSPROS [spr_exp_sum] and Price Statistics [prc_hicp_aind]; DG EMPL calculations

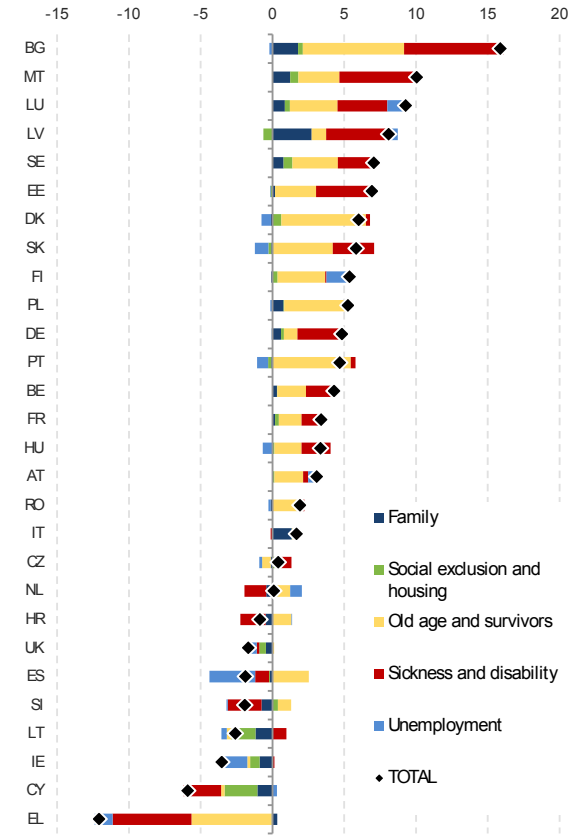
Click here to download chart.

Social protection expenditure continued to increase in the majority of Member States in 2014. While sickness and disability expenses contributed significantly to the growth in several Member States, countries with large crisis-related fiscal consolidation needs, namely Greece and Cyprus, saw large cuts. Expenditure on old-age pensions and survivors' pensions increased in most Member States, partly reflecting demographic change, except in Greece where expenditure on pensions declined (*Chart 1.34*).

Chart 1.34

Social protection expenditure increasing in most Member States

Growth in social protection expenditure 2012-2014 (% change, in real terms) and contribution (pps) by functions, EU Member States



Note: The nominal expenditure is converted into real expenditure by deflating with the Harmonised Index of Consumer Prices (HICP).

Source: Eurostat, ESSPROS [spr_exp_sum] and Price Statistics [prc_hicp_aind]; DG EMPL calculations

Click here to download chart.

5.2. Income inequality has stabilised in the EU, and social transfers have important redistributive effects

Disposable income inequality in the EU remained stable in 2015, but is slightly higher than in 2012 ([65]). Both the disposable income inequality indicators, namely the quartile share ratio S80/S20 and the GINI coefficient ([66]), remained broadly stable at EU level in 2015 ([67]). The S80/S20 indicates that the richest 20 % of people (top quintile) had an equivalised disposable income that was around five times higher than that of the poorest 20 % of people (lowest quintile) in 2015 (5.2 compared to 5.0 in 2012). While the overall income distribution in the EU may thus remain more equal than in other major advanced economies, some increase in disposable income inequality has been observed over recent years. There are concerns that high inequality may have a detrimental impact on economic growth and its sustainability ([68]). High inequality raises concerns about fairness as it usually reflects a high risk of poverty

([65]) The reporting year in this chapter refers to the EU-SILC survey year, which measures income of the previous year. The latest survey 2015 data refer to income distribution in 2014.

([66]) The S80/S20 income quintile share ratio refers to the ratio of total equivalised disposable income received by the 20 % of the country's population with the highest equivalised disposable income (top quintile) to that received by the 20 % of the country's population with the lowest equivalised disposable income (lowest quintile).

The Gini coefficient of equivalised disposable income measures the extent to which the distribution of equivalised disposable income after social transfers deviates from a perfectly equal distribution. It is a summary measure of the cumulative share of equivalised income accounted for by the cumulative percentages of the number of individuals. Its value ranges from 0 (complete equality) to 100 (complete inequality).

([67]) This was already indicated in the ESDE 2016 published in December 2016 (European Commission (2016f), p. 42-43. No new data has become available since then. The next complete update for 2016 data is scheduled for autumn 2017.

([68]) See Halter et al. (2013), Cingano (2014), Ostry et al. (2014), Dabla-Norris et al. (2015), OECD (2015).

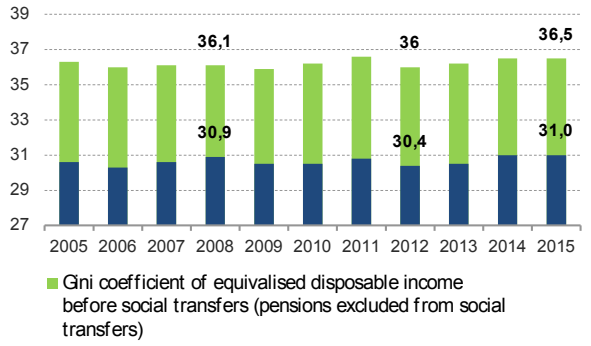
and social exclusion ([69])([70]). The remainder of this section focuses on the income inequality of the whole income distribution, represented by the GINI coefficient ([71]).

Income inequality would have been much higher without the redistributive effects of taxes and transfers. These effects are measured by the difference between market income inequality and disposable income inequality ([72]). Market income inequality (before transfers) grew slightly between 2012 and 2014, and stabilised in 2015. The redistributive effects of taxes and transfers strengthened between 2008 and 2012 but weakened thereafter, as market inequality increased (*Chart 1.36*) ([73]).

Chart 1.36

Income inequality before and after social transfers

Gini coefficient before social transfers and of disposable income, EU27



Note: The Gini coefficient is an indicator with value between 0 and 1. Lower values indicate higher equality. In other words a value of 0 indicates everybody has the same income, a value of 1 indicates that one person has all the income. Gini is based on total equivalised disposable household income. The year refers to the EU-SILC survey year; income measured is from the previous year.

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12b]

Click here to download chart.

([69]) See European Commission (2016b), p. 3, and European Commission (2016c), p. 3.

([70]) However income is only a part of the multidimensional context of fairness, which includes inequality of opportunities, including health and health care, housing, education and mobility, see European Commission (2015a) and European Commission (2016l).

([71]) S80/S20 would show inequality between the top and the bottom of the income distribution.

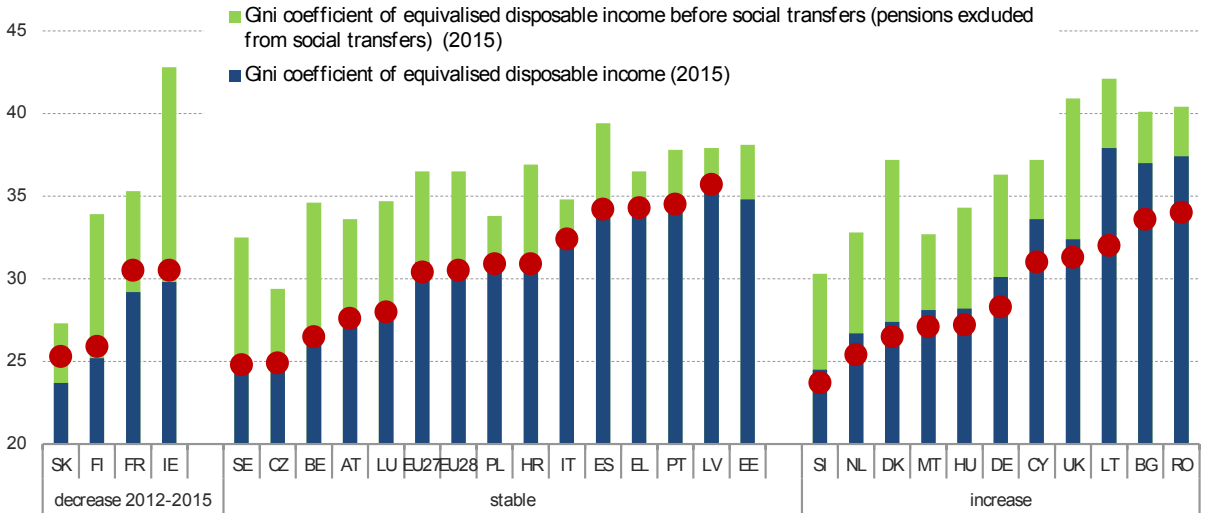
([72]) Market incomes are the gross incomes earned by individuals or households before any redistribution via taxes and transfers, while disposable incomes are final incomes taking into consideration the effects of redistributive policies (which may involve the provision of in-kind benefits and services).

([73]) See European Commission (2016f), p 42.

Chart 1.35

Income inequality increased in around ten Member States, while the impact of tax-benefit system varied

Gini coefficient before social transfers and of disposable income, Member States



Note: The Gini-coefficient is an indicator with value between 0 and 1. Lower values indicate higher equality. In other words a value equal to 0 indicates everybody has the same income, a value equal to 1 indicates that one person has all the income. Gini is based on total equivalised disposable household income.
The year refers to the EU-SILC survey year, income measured is from the previous year.
Green bars reflect redistributive effects of taxes and transfers, measured by differences between market income inequalities (the top of green bars) and disposable income inequalities (the top of dark-blue bars).

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12bdi12c]

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Income inequality widened in some Member States between 2012 and 2015, and the extent of the redistribution effect differed. Around ten Member States saw increases in disposable income inequality between 2012 and 2015 (most notably Bulgaria, Lithuania and Romania). At the same time, the size of the impact of social transfers on income inequality (*Chart 1.35*, measured by green parts of the bar) differed across Member States. Social transfers reduced income inequality by less than 7 % in Bulgaria, Cyprus, Estonia Greece, Italy, Latvia, Poland and Romania but by more than 25 % in Belgium, Denmark, Finland and Ireland.

Chart 1.37

Risk of poverty or social exclusion mostly declining

At risk of poverty or social exclusion rate, at-risk-of-poverty rate, severe material deprivation rate (% of population), very low work intensity households (% of population aged 0-59), EU, EA and Member States, 2012-2015

Note: Green bars indicate decrease between 2012 (where light green bars end) and 2015 (where dark green bars end)
Red bars indicate increase between 2012 (where light red bars end) and 2015 (where dark red bars end), and grey bars indicate little or no change.
AROPE combines AROP, SMD and VLWI. The length of bars of components should not add to the length of AROPE bar, because components overlap in AROPE and in components.
The year refers to the EU-SILC survey year, income measured is from the previous year. AROPE, AROP: income from the previous year, SMD: current year, VLWI: status in the past year.
BG and EE break in series in 2014 (BG AROPE SMD, EE AROPE AROP VLWI).

Source: Eurostat, EU SILC [ilc_peps01, ilc_li02, ilc_mddd11, ilc_lvhl11]

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Financial distress faced by the poorest people continued to ease in 2016, but it remained historically high. Financial distress, measured as the percentage of people that need to draw on savings or to run into debt in order to cover current expenditure, has eased over recent years following a strong increase between 2011 and 2013. The gap between income groups has widened as financial distress increased most for people in the lowest quartile of household income. At EU level in 2016, 10 % of adults in low-income households were in debt and a further 15 % drew on savings to cover current expenditure (this compares with 5 % and 10 % respectively for the total population).

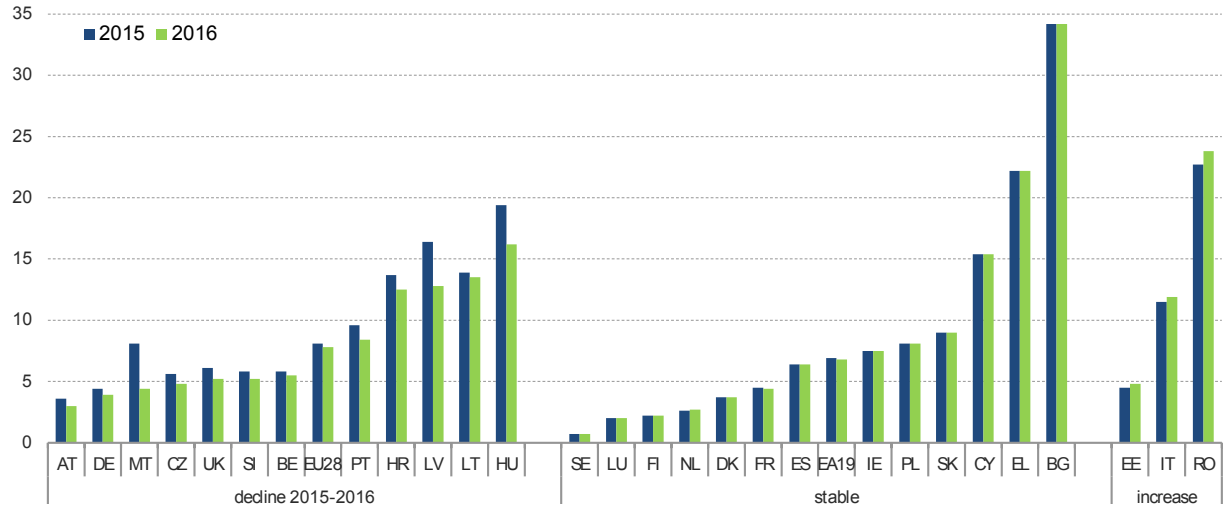
Median income increased in most Member States. Different distributional patterns emerge, looking at disposable income in different quintiles of the distribution ([74]). Median income has increased in all Member States in real terms. However, in Bulgaria, Estonia Lithuania and Poland, the income of the richest people has increased faster than both median incomes and the income of the poorest people, while in Croatia, Greece and Portugal the opposite is the case (see *Chart 1.40* in Annex to this chapter). Overall, the income of the richest people has been 1.6 to 2.7 times higher than median income in most Member

([74]) To be precise, at the median income in each income quintile. The median incomes in each income quintile are the cut-off points of deciles D1, D3, D5, D7 and D9.

Chart 1.38

Severe material deprivation continued to decline in most Member States in 2016

Severe material deprivation rate (% of population), 2015 and 2016, EU



Source: Eurostat, EU SILC [ilc_mddd11]

Click here to download chart.

States. This confirms developments in disposable income inequality, measured by S80/S20 and GINI, as well as in relative monetary poverty (AROP) in some Member States.

5.3. Risk of poverty or social exclusion is declining due to lower joblessness and lower material deprivation

The number of people at risk of poverty or social exclusion (AROPE) in the EU continued to decrease in 2015 ([75]). In 2015 ([76]), 4.8 million fewer people in the EU (including 705,000 in the euro area) were at risk of poverty or social exclusion compared with the peak in 2012. The AROPE decrease followed strong increases in incomes stemming from the recovery in economic activity and improvements in labour markets, including declines in long-term unemployment and youth exclusion and continued increased participation of older workers and women.

The number of people at risk of poverty or social exclusion has been slowly falling to the pre-crisis level. By 2015, the number of people at risk of poverty or social exclusion in the EU27 had gone down to close to the 2008 level, remaining 1.7 million ([77]) above that level. Notable annual declines would still be needed to reach the Europe 2020 target of reducing AROPE in the EU27 to 20 million below the 2008 figure.

The reduction in AROPE at EU level was underpinned by different trends in AROPE's three components: relative monetary poverty, severe material deprivation and living in very low work intensity households ([78]). In summary:

([75]) The year in this chapter refers to the EU-SILC survey year, which measures income in the previous year. The latest survey 2015 data refer to income distribution in 2014.

([76]) This was already indicated in ESDE 2016 published in December 2016 (European Commission (2016f), p 38-42). No new data has become available since then. The next complete update for 2016 data is scheduled for autumn 2017.

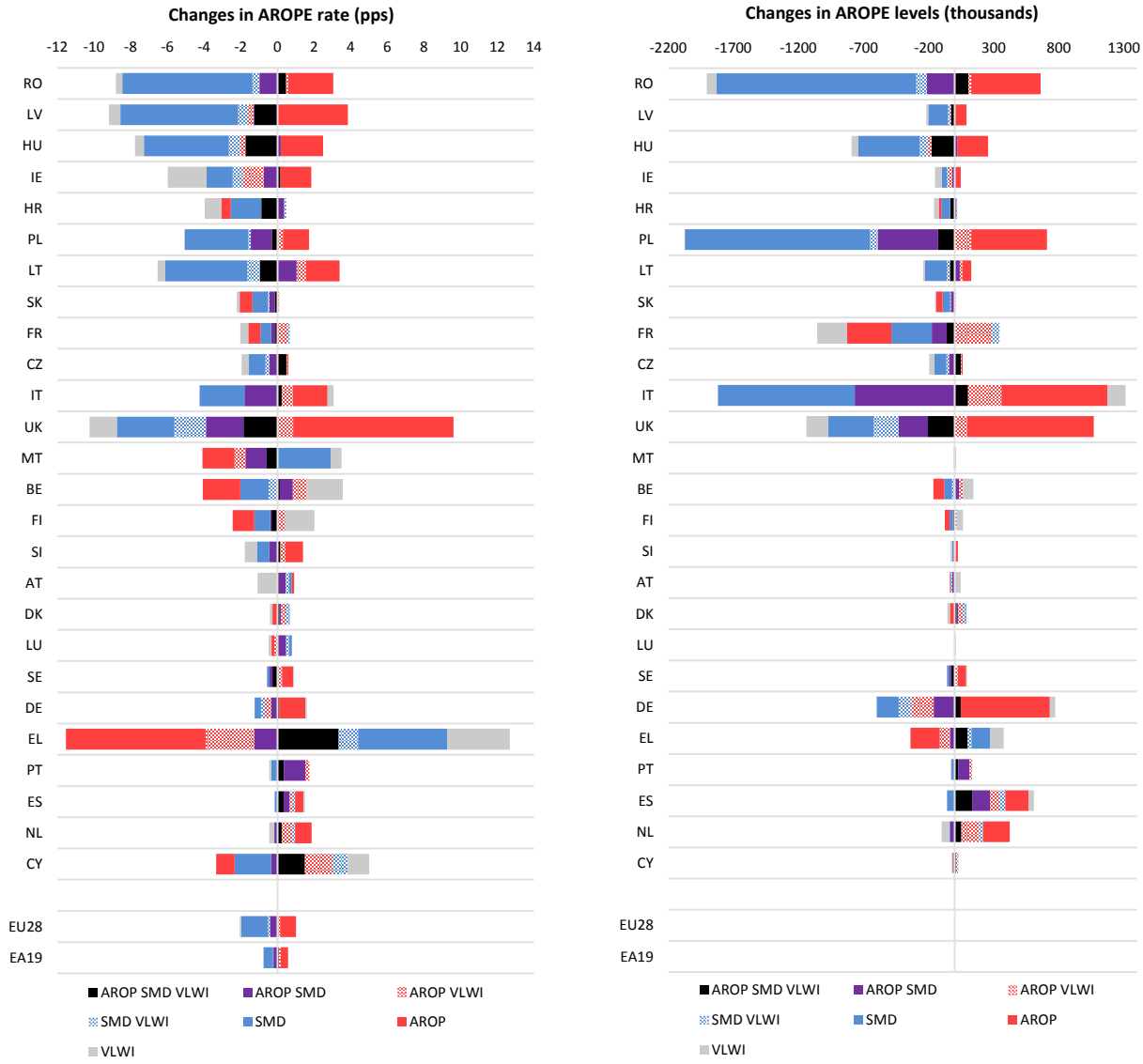
([77]) 1.6 million in the EU.

([78]) The **at-risk of poverty or social exclusion (AROPE)** indicator corresponds to the number of people who are in at least one of the following situations: at risk of poverty or severely materially deprived or living in households with very low work intensity.
People at risk of poverty (AROP) have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers).
Severely materially deprived (SMD) people have living conditions severely constrained by a lack of resources, i.e. they experience at least 4 out of the following 9 deprivations: they cannot afford i) to pay rent or utility bills, ii) to keep their home warm enough, iii) to face unexpected expenses, iv) to eat meat, fish or a protein equivalent every second day, v) a week's holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV or ix) a telephone.
People living in households with very low work intensity (VLWI) are those aged 0-59 living in households where the adults (aged 18-59, excluding students aged 18-24) worked not more than 20% of their total work potential during the past year.

Chart 1.39

Risk of poverty or social exclusion mostly on decline, but with different impact of components

Change in at risk of poverty or social exclusion rate – contribution of components to change in AROPE rate (pps), and levels (thousands), EU, EA and Member States, 2012-2015e



Note: Bars indicate changes in intersections of AROPE. The left chart show the change in the AEROPE rate in percentage points. The right chart shows the change in number of people.
The year refer to the EU-SILC survey year, income measured is from the previous year. AROPE, AROP: income from the previous year, SMD: current year, VLWI: status in the past year.
BG and EE break in series in 2014: change not available HU and IE 2012-2014..

Source: Eurostat, EU SILC [ilc_pees01, ilc_peps01]

Click here to download chart.

– The number of people at risk of (relative) poverty (AROP) stabilised according to 2015 EU-SILC data (reflecting incomes in 2014), after increasing in the previous year. This increase in 2014 reflected the weak economic and labour market situation until mid-2013, and the subsequent upward shift in the poverty threshold ([79]) as household incomes started to recover in mid-2013.

– Severe material deprivation (SMD) has been declining since 2013, mainly driven by strong decreases in a few Member States, i.e. Bulgaria, Estonia, Hungary, Italy, Latvia, Lithuania, Poland and Romania.

([79]) **The risk-of-poverty threshold** is set at 60% of the national median equivalised disposable income (after tax and other deductions and after social transfers).
The total **equivalised disposable** household income, used in poverty and inequality indicators, takes into account the impact of differences in household size and composition,. The equivalised income attributed to each member of the household is calculated by dividing the total disposable income of the household by the equalisation factor. This indicator gives a weight of 1.0 to the first person aged 14 or more, a weight of 0.5 each to other people aged 14 or more and a weight of 0.3 each to people aged 0-13.

– A recovery in the labour market produced a decrease in the number of people living in very low work intensity (VLWI) households in 2015 ([80]).

In 2015, 118.8 million Europeans, including 76.7 million in the euro area, were at risk of poverty or social exclusion. The levels and changes over 2014-2015 and 2012-2015 are summarised here:

– 9.2 million people (aged under 60) were at risk of poverty *and* severely materially deprived, *and* living in very low work intensity households (reductions of 680 000 compared with 2014 and 120 000 compared with 2012);

– 12.2 million people were at risk of poverty *and* severely materially deprived (630 000 fewer than in 2014 and 1.8 million fewer than in 2012);

– 14.1 million people (aged under 60) at risk of poverty *and* living in very low work intensity households (430 000 fewer than in 2014 but 660 000 more than in 2012);

– 2.9 million people (aged under 60) were severely materially deprived *and* living in very low work intensity households (decrease of 540 000 compared with 2014 and 560 000 compared with 2012);

– 16 million people were severely materially deprived (2.4 million fewer than in 2014 and 6.6 million fewer than in 2012);

– 51.2 million people were at risk of poverty (increase of 2.2 million relative to 2014 and 4.1 million relative to 2012);

– 13.1 million people were living in very low work intensity households (decrease of 1 million compared with 2014 and 440 000 relative to 2012).

Underpinning the change in AROPE between 2012 and 2015 are the increase in the number of people at risk of poverty and the decrease in severe material deprivation (*Chart 1.39*).

– The number of people at risk of poverty (but not in severe material deprivation or in very low work intensity households) and the number of people at risk of poverty who also live in very low work intensity households increased.

– The number of people in severe material deprivation, the number of people in severe material deprivation and also at risk of poverty, and the number of people in severe material deprivation who also live in very low work intensity households declined.

– **The risk of poverty or social exclusion is higher among vulnerable groups including children, people with disabilities, migrants** ([81]) **and Roma.** Children have a higher rate of AROPE (26.9 %) than people aged 18-64 (24.7 % in 2015), and a much higher rate than the older population (17.4 %). People with disabilities ([82]) are more likely to be at risk (38.4 %) than those without any disability (21.9 %). Migrants ([83]) are more affected by the risk of poverty or social exclusion (42.0%) than people born in other EU Member States (27.8 %) or the same Member State (23.2 %). Around 80 % of Roma are at risk of poverty or social exclusion ([84]). There is also a slight gap between women and men (25.2 % vs. 24.1 %).

The risk of poverty or social exclusion has decreased or stabilised since 2012 in most Member States. Several Member States recorded notable declines between 2012 and 2015, namely Croatia, Hungary, Ireland, Latvia, Poland and Romania (*Chart 1.39*).

Most of the Member States saw further improvements in living standards in 2016. The number of people living in severely materially deprived conditions who were greatly constrained by a lack of

([80]) Further, the population in jobless households decreased in 2015 to 10.7 %, according to the Eurostat, LFS data [lfsi_jhh_a].

([81]) See European Commission (2017c), p 14.

([82]) People with some or severe limitations, aged 16-64.

([83]) Migrants are defined here as those people born outside the EU (aged 18-64).

([84]) See FRA (2016).

resources continued to decline in 2016, according to Eurostat early estimates. Severe material deprivation decreased to 7.8 % in the EU and remained stable at 6.8 % in the euro area. Only Estonia, Italy and Romania saw a deterioration between 2015 and 2016 (*Chart 1.38*).

Despite positive signs, the risk of poverty or social exclusion remains a key challenge especially in the Baltics and southern Member States. The risk remains high in Bulgaria, Croatia, Latvia, Lithuania and Romania despite recent improvements, and high in Greece where it has recently escalated. It has also been rising in other southern Member States (Cyprus, Portugal and Spain) where it now approaches the level of those just mentioned (*Chart 1.37*). Together with an increase in inequality in many Member States, this is one of the main challenges to social cohesion.

6. CONCLUSIONS

Economic and employment growth continued during 2016 and early 2017, along the recovery path started in 2013. So far, the economic recovery has led to the net creation of almost 8 million jobs, allowing the EU to reach 234.2 million people in employment in the first quarter of 2017. A steady moderate economic growth is expected to continue in the near future**.** However, the considerable number of jobs created in relation to economic growth hides challenges, such as the incomplete recovery in hours worked and modest productivity growth. If lasting, these factors may put additional pressure on long-run economic growth prospects and social cohesion in the EU.

Macroeconomic developments have had positive effects on the labour market since 2013. Both economic growth and the long-term steady increase in labour market participation have been positive for the labour market. In some respects, such as the level of employment, the labour market has fully recovered from the crisis. However, labour market recovery remains incomplete: unemployment and long-term unemployment are still high in many Member States, while the labour market is tightening in other Member States. The structure of the EU labour market has changed since 2008, with a shift in jobs towards service-oriented sectors.

Different demographic groups have been affected in different ways during the crisis and recovery. While young people and migrants were severely impacted by the crisis, women and older workers have experienced more positive labour market trends with increasing participation and employment rates. These positive developments for women and older workers appear to be linked mainly to structural changes, supported by higher education attainment. For women, these developments can also help to address the large pay gaps that remain. Young people have been lagging behind in the recovery, but their participation in education and training has been increasing and more young people are combining work and training. The recovery for migrants has also been slow and their employment rate has not yet returned to pre-crisis levels.

Clearer signs of a general improvement in the social situation are emerging, but challenges remain. Over the last three years, incomes from work wages have continued to increase, and together with social transfers have led to an increase in the disposable incomes of households. The risk of poverty or social exclusion has been falling in the EU from its high of 2012, while inequality stabilised in 2015. The risk of poverty and inequality in the EU would have been much higher without the redistributive effects of tax-benefit systems. Meanwhile, the labour market recovery remains incomplete; unemployment and long-term unemployment are still high. These carry the risk of exacerbating social exclusion, particularly for people in households with low incomes and belonging to certain vulnerable groups where social protection transfers are insufficient. Divergences among Member States remain significant. The risk of poverty or social exclusion has increased in several Member States: inequality has intensified in around ten Member States and is one of the main socio-economic challenges in the EU. Nevertheless, favourable developments in the economic and labour market situation seem to indicate that the improvements in the social situation which started in 2013 can be expected to continue.