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Subject: EMCO Annual Employment Performance Report

Delegations will find attached the EMCO Annual Employment Performance Report.

EMCO Annual Employment Performance Report

Executive Summary

In line with the EPSCO Council's commitment to put its expertise on employment and labour market policies at the service of the European Council successful implementation of the Europe 2020 Strategy, the Employment Committee was mandated¹ to produce an Employment Performance Monitor (EPM), with two main objectives:

- monitoring progress towards the overall 2020 employment rate target and related national targets;
- identifying at a glance the key employment challenges (KECs) and good labour market outcomes (GLMOs), both across the European Union and for each Member State respectively.

This report presents the main findings from a detailed analysis of the 2020 EPM. In particular, the EMCO Indicators Group analysed the EPM results to assess progress towards the overall EU and national employment rate targets, as set in the Europe 2020 Strategy. This year in light of the economic, employment and social impacts of the COVID-19 pandemic and concomitant uncertainties as regards labour market conditions, the report does not feature a forward-looking aspect. Additionally, progress achieved in 2019 towards the EU 2020 targets should be seen in the light of the present crisis and as not entirely representative of current realities. Nonetheless, looking at the 2019 figures could allow the identification of pre-existing vulnerabilities. Moreover, while overall and (some) national employment targets will not be met, a number of policy issues remain, which may be exacerbated by the COVID-19 crisis. The EMCO Indicators Group has provided a thematic analysis of the EPM and a summary of the key employment challenges and good labour market outcomes across the EU in 2019. This contributes to the identification of the main EU priorities which it will be important to monitor in the coming years, during and after the recovery phase.

The COVID-19 crisis has had a serious impact on people's health, with a significant number of deaths recorded across the Union. It has put Member States' health systems under unprecedented stress, while the associated confinement measures have severely affected production, consumption and investment. As a result, the EU entered the deepest economic recession in its history. According to the Summer 2020 European Economic Forecast, EU27 GDP is expected to contract by 8.3% this year, far deeper than during the financial crisis in 2009. Even if most of the impact proves to be temporary (the Summer 2020 Economic Forecast estimates a rebound of around 5.8% in terms of GDP in 2021), the pandemic is likely to leave some persistent scars in European economies and labour markets. Additionally, the way Member States emerge from the crisis is set to be uneven and could thus exacerbate inequalities between Member States and undermine past efforts at upward convergence.

¹ See 14478/10.

In 2019, EU unemployment rates had fallen to their lowest levels in more than a decade, while employment had reached new all-time highs. The pandemic brought this improvement to a halt. Policy action in dealing with the fallout of the pandemic was swift, with measures such as short-time work schemes for workers and income subsidies for the self-employed, as well as liquidity measures for firms taken to limit employment losses during the confinement period. As a result, employment rates may not slump significantly in the near term, despite the contemporaneous steep decrease in hours worked. However, the extent to which it will be possible to regain previous levels of employment after the various support schemes are phased out and restore the pre-existing allocation of employment to sectors and companies remains uncertain. The COVID-19 crisis may accelerate structural changes occurring in European economies and this may further impact people in a vulnerable position - such as the young, workers on temporary contracts, the low-skilled, self-employed, migrant workers, etc.

In 2019, the EU28² employment rate (20-64) rose by 0.7 percentage points compared to 2018 and stood at 73.9%³ (79.6% for men and 68.2% for women). Seventeen Member States had already achieved their national targets and in 14 of them the employment rate rose compared to 2018. Moreover, in all the Member States which did not achieve their national targets, the gap between the national target and their employment rate decreased in 2019 compared to 2018.

In terms of thematic priorities for Member States, the EPM's Key Employment Challenges (KECs) and Good Labour Market Outcomes (GLMOs) data show that:

- 22 Member States have KECs relating to **skills and lifelong learning** (principally related to skills mismatches and low participation in lifelong learning) and 13 achieved GLMOs.
- 21 Member States face KECs related to **education and training systems** (mainly concerning educational outcomes depending on socio-economic background, low attainment of basic skills and early school-leavers), whilst 9 had GLMOs.
- 19 Member States have KECs in **labour market participation**, and 16 achieved GLMOs. The participation of older workers and those with lower skill levels, together with youth unemployment and NEETs, feature prominently.
- 16 Member States face KECs related to **social security systems** (e.g. unemployment benefits, low-wage traps, unemployment traps), whilst 13 achieved GLMOs.
- 15 Member States face KECs in the area of **work-life balance** (as regards provision and uptake of care facilities and the impact of parenthood on labour market participation) and 10 achieved GLMOs.

² EU28 figures are used in the EPM as the UK was part of the EU, while currently it is in the transition period until the end of 2020.

³ For the EU27 the 2019 employment rate was 73.1% while that of 2018 was 72.4%.

- 14 Member States face KECs in the area of **gender equality** (especially regarding gender employment gaps) and 15 achieved GLMOs.
- 14 Member States face KECs in the area of **labour market functioning** (with segmentation still being a concern) and 12 achieved GLMOs.

Finally, the analysis identifies some trends to watch (for the period 2018-2019):

Positive trends

- An increase in the **employment rate** (in 20 MS)
- An increase of the **share of adults with medium or high education** (in 19 MS)
- An increase in **total employment** (in 18 MS)
- An increase in the **job vacancy rate** in a favourable labour market context (in 16 MS)
- An increase in the **employment rate of older workers** (in 15 MS)

Negative trends

- A deterioration in the **nominal unit labour costs** in a majority of Member States (in 22 MS)
- A rise in the **at-risk-of-poverty rate among the unemployed** (registered in 13 MS), even though a decrease was observed in 7 MS
- An increase in **inactivity and part-time work due to personal and family responsibilities** in 9 MS, even though an improvement was observed in 9 other MS

1. Progress towards the EU-28 employment rate headline target

The Europe 2020 Strategy set an EU-wide employment rate target of 75% for women and men aged 20 to 64 by 2020, which was translated into a set of national employment rate targets. The national 2020 employment rate targets (announced by Member States in 2011 through their National Reform Programmes or updated since then) range from 65.2% in Croatia to 80% in Denmark, the Netherlands and Sweden.⁴ The choice and ambition of the national targets has important implications for reaching the overall EU employment target, given that if all the Member States were to achieve their stated national targets for 2020, the EU28 average employment rate (20-64) would range between 73.7% and 74.0% (depending on whether lower or upper values are considered).

Over the past decade, the EU has seen strong employment expansion and achieved record levels of employment. Since the adoption of the EU 2020 strategy in 2010, the employment rate has grown by 5.3 percentage points, with the most persistent growth taking place after 2015. In 2019, the EU28 employment rate (20-64) stood at 73.9% (79.6% for men and 68.2% for women); the highest level ever reached (Figure 1). However, as already noted in the previous Annual Employment Performance Report (2019) lower levels of economic growth had slowed down the pace of net job creation. Thus, before the COVID-19 crisis, the EU28 employment rate was forecast to increase to approximately 74.3% (European Commission Autumn Economic Forecast), thus narrowly missing the Europe 2020 target of 75%. The EU27 2019 employment rate was 73.1%.

This scenario will not materialise, as a result of the pandemic. The number of employed people in the EU27 is expected to fall by 4.4% in 2020, before rising again in 2021 by 3.3% (Spring 2020 European Economic Forecast). Additionally, the unemployment rate in the EU27 is forecast to rise from 6.7% in 2019 (6.4% for men and 7% for women) to 9% in 2020 on average, before falling again in 2021, with differences across sectors, countries and regions.

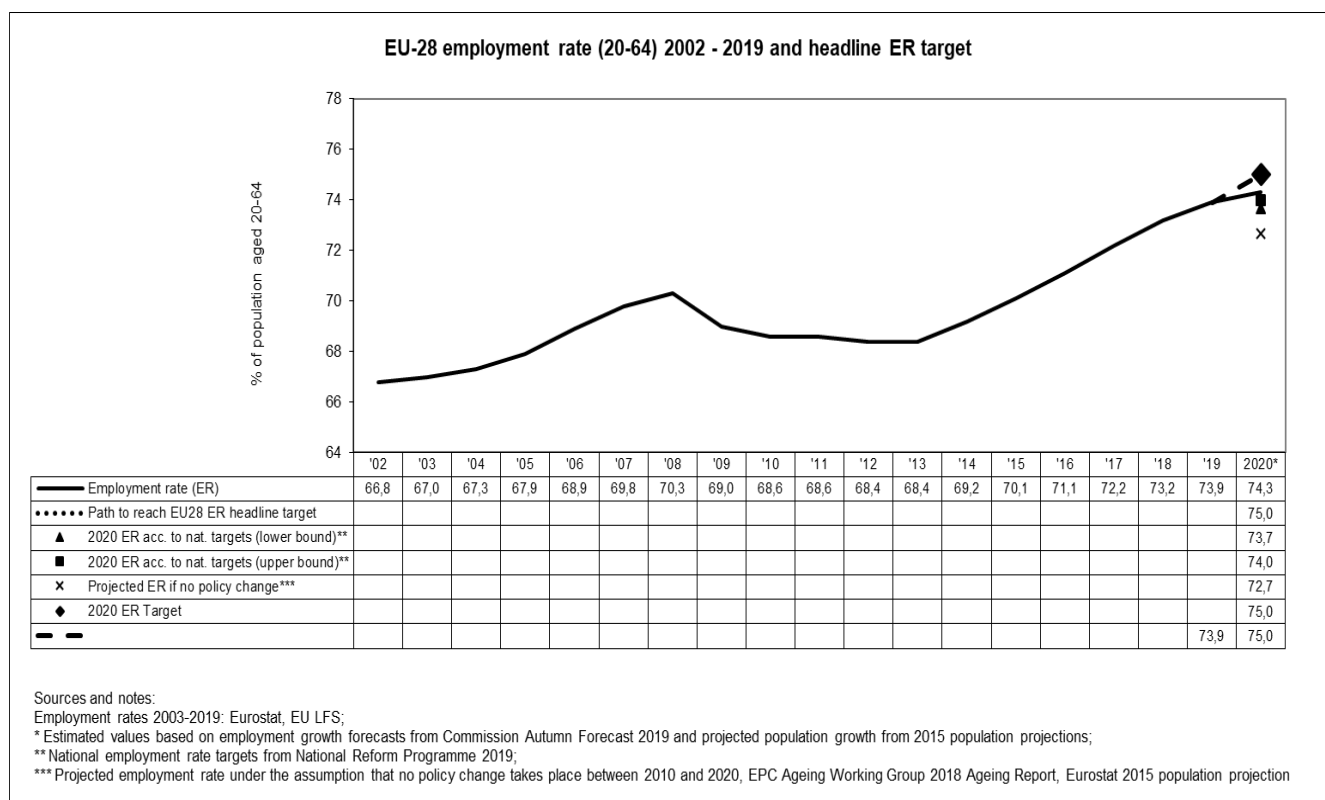
In 2020 Q2, employment dropped by 5.5 million (-2.6%) in the EU, compared to 2020 Q1. This is the sharpest decline in employment ever observed between two successive quarters since data started to be available (1995). In July 2020, EU27 unemployment stood at 7.2%. Moreover, according to Eurostat, absences from work reached a record high in 2020 Q1. A total of 22.9 million people were absent from work in the EU, an increase of 4.3 million compared to 2019 Q4. This increase is to a large extent due to a sharp increase in temporary lay-offs, which rose from 0.3 million persons to 2.3 million persons.

⁴ The United Kingdom did not set a national target. In a few countries (Austria, Cyprus, Ireland and Italy), the national target is expressed as a range of values (i.e. with upper and lower values) instead of a point target. In addition to national targets for the overall employment rate, some Member States have also set subsidiary targets for specific labour market groups, such as women, older workers, non-EU citizens, and young people.

There has been massive use of governmental measures in support for employment (via short-time work, temporary lay-off schemes and the like). Short-time work schemes are very effective in preventing unemployment from rising during economic downturns and keeping human capital within the firms. A data collection exercise was launched (via the EMCO Indicators Groups and the SPC Indicators Sub-group) to monitor support measures implemented by Member States in response to the crisis. According to preliminary data, approximately 26 million jobs were supported by short-time work and temporary lay-off schemes in April, while 24 million jobs were supported in May (in the 16 MS with available data)⁵.

A return to previous levels of employment after the various support schemes are phased out and restoration of the previous allocation of employment to sectors and companies is far from a foregone conclusion. Moreover, in a context in which the duration of the shock is uncertain, hiring could remain subdued. In terms of impact, according to the ILO the massive labour market disruptions caused by the pandemic have already hit women, the young and informal workers particularly hard (ILO COVID-19 Monitors). Structural changes in the economy may still occur, while the crisis is expected to particularly affect people in vulnerable positions - such as the young, workers on temporary contracts, the low-skilled, self-employed, migrant workers, etc.

Figure 1. Progress towards the EU-28 employment rate headline target



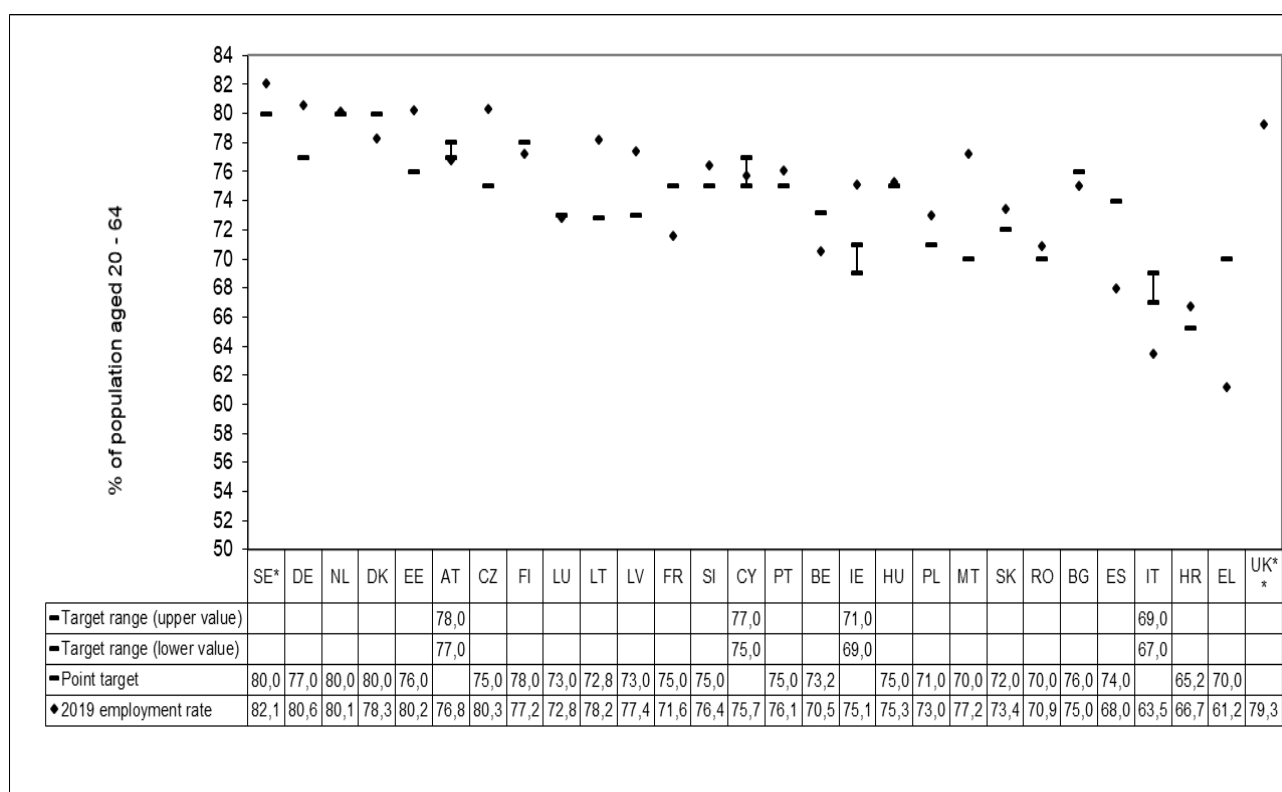
Source: Eurostat and DG Employment, Social Affairs and Inclusion estimates for 2020

⁵ In April, approximately 1.9 million companies received support, while in May the figure was approximately 1.4 million (in the 16 MS with available data).

In 2019, 17 Member States had already achieved their national targets (

Figure 2) and in 14 of them the employment rate increased compared to 2018. Moreover, JAF analysis shows that in all the Member States that had not achieved their national targets, the gap between the national target and the employment rate decreased in 2019 as compared to 2018. Despite progress, significant disparities still exist between countries, with 4 Member States (Greece, Cyprus, Spain and Denmark) showing employment rates below their corresponding pre-2007-crisis levels, and 4 others (Italy, Croatia, France and Finland) in which the employment rates rose very little over the past eleven years. The rises in employment rates for women and older workers have been clear successes over the period of the strategy. However, unemployment and economic inactivity remain very high in some countries, notably amongst young people and the low-skilled.

Figure 2. National employment rate targets set by Member States in their National Reform Programmes compared to employment rates in 2019



Sources: National Reform Programmes 2019, EU Labour Force Survey for 2019 employment rate.

Note: ■ indicates a range for Member States national targets.

* Sweden has defined a national employment rate target of 'well over 80%'.

** The United Kingdom has not set a national employment rate target.

2. Overview of Key Employment Challenges and employment trends in the EU labour market

One of the main objectives of the Employment Performance Monitor (EPM) is to identify at a glance the key employment challenges (KECs) and good labour market outcomes (GLMOs) across the European Union and for each Member State, which are derived through the assessment produced by the Joint Assessment Framework (JAF). Tables displaying a summary of key employment challenges and good labour market outcomes across the EU can be found in Part I of the EPM⁶, while specific key employment challenges and good labour market outcomes for each Member State are presented in Part II⁷. The EPM also includes a dashboard of key employment indicators (EPM dashboard⁸) which can be used to identify ‘trends to watch’ and ‘positive recent trends’ common to a number of Member States in the field of employment.

An overview of the findings from both of these sections of the EPM is presented in the sections below, with the aim of providing an overall picture of the labour market situation in the EU, covering both structural challenges and overall recent trends. It is important to identify and monitor the main EU priorities in the coming years, especially as some outstanding issues could be exacerbated by the COVID-19 crisis.

a. Overview of key employment challenges and good labour market outcomes

This section provides a summary overview of the KECs and GLMOs across the EU, based on a horizontal reading of the information in the EPM. KECs are defined as major areas of underperformance that can signal structural problems, whereas GLMOs are defined as areas of good labour market performance.

In the EU as a whole, the EPM data show that Member States face the following **key employment challenges** under the 10 JAF policy areas (Figure 3):

- Labour market participation (19 MS), which mainly relate to:
 - Low and/or decreasing employment rates: overall (5 MS), women (3 MS), older workers (9 MS), low-skilled (8 MS) and non-EU migrants (7 MS)
 - High and/or increasing incidence of youth unemployment and/ or NEETs (7 MS)
 - Low duration of working life (7 MS)
- Labour market functioning, combatting segmentation (14 MS):
 - High/increasing labour market segmentation (9 MS), low transitions from temporary to permanent employment (1 MS)
 - High incidence of undeclared work (5 MS)

⁶ Tables 1 and 2.

⁷ Part II: Country Overviews.

⁸ The EPM dashboard can be found in Annex C in the EPM.

- Active Labour Market Policies (13 MS), which mainly relate to:
 - Low levels of ALMP expenditure / insufficient provision of well targeted tailored measures / insufficient functioning of public employment services (13 MS)
 - High incidence of long-term unemployment (5 MS)
- Adequate and employment-oriented social security systems (16 MS), which mainly relate to:
 - Inadequate level and coverage of unemployment benefits / high poverty and/or low-wage traps / High at-risk-of-poverty levels (11 MS)
 - Disincentives to labour market participation in social security systems / Disability pensions / unemployment traps (5 MS)
- Work-life balance (15 MS), which mainly relate to:
 - Insufficient provision / uptake of high quality, affordable child and/or dependent care facilities (12 MS)
 - High incidence of inactivity and part-time work due to family obligations, high impact of parenthood on employment (11 MS)
- Job creation (2 MS), which mainly relate to:
 - Negative employment growth / insufficient job creation (1 MS)
 - High tax wedge on labour (1 MS)
- Gender equality (14 MS), which mainly relate to:
 - Gender gaps: employment (7 MS), pay (6 MS)
 - Disincentives for second earners (4 MS)
- Skill supply and productivity, lifelong learning (22 MS), which mainly relate to:
 - Weaknesses with respect to educational attainment of the (adult) population (4 MS)
 - Low participation in lifelong learning / lack of an integrated lifelong learning strategy (13 MS)
 - Skills mismatches / insufficient forecasting skills system (13 MS)
 - Low level of digital skills among adults (5 MS)

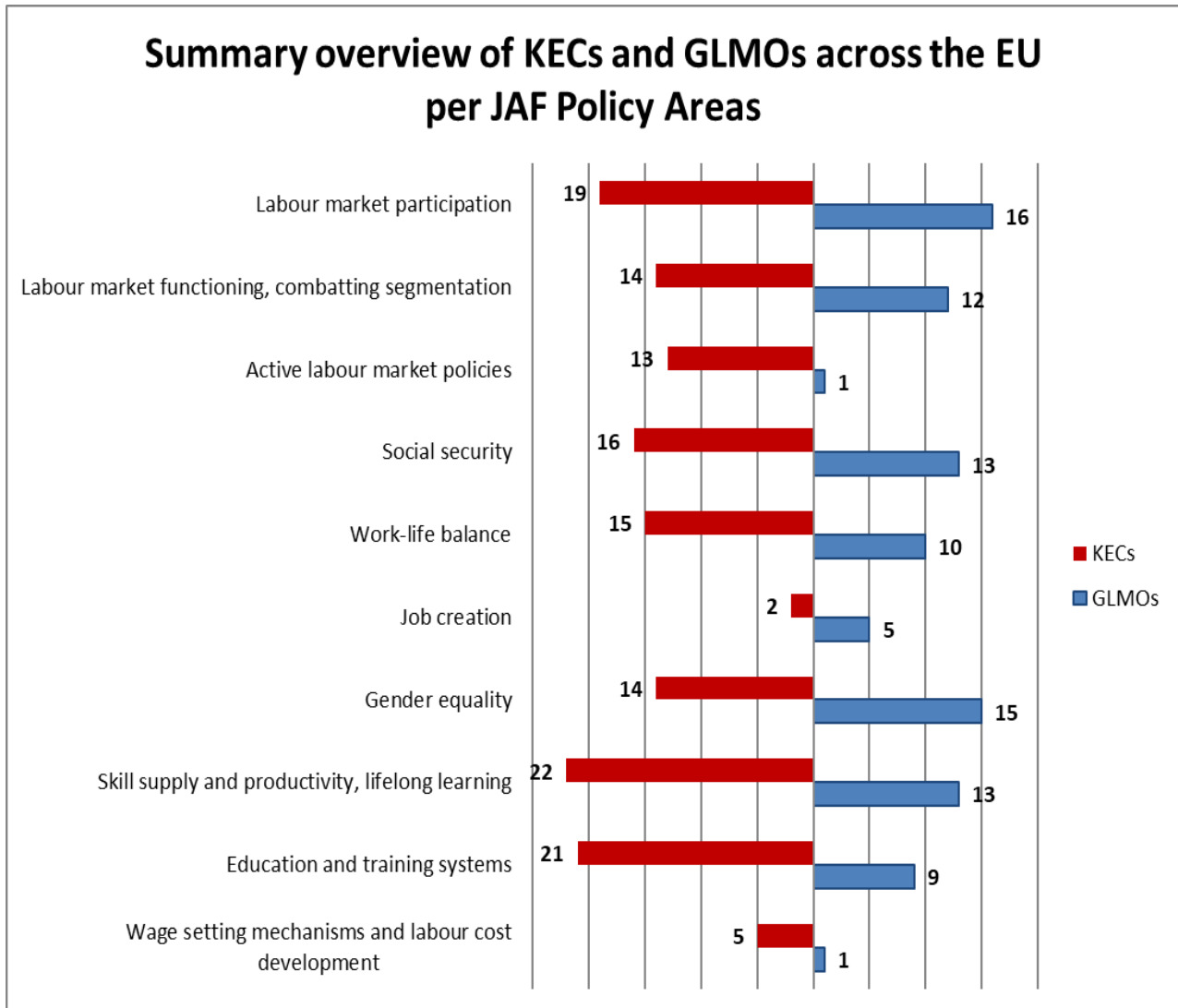
- Education and training systems (21 MS), which mainly relate to:
 - High incidence of early school-leaving (7 MS)
 - Low upper secondary education attainment rate (2 MS)
 - Low tertiary education attainment rate (4 MS)
 - Low basic skills attainment rate (8 MS)
 - Educational outcomes depending on socio-economic and migrant background (11 MS)
 - Low attractiveness of vocational education and training (1 MS)
 - Low attractiveness of the teaching profession (3 MS)
 - Insufficient provision of education and training opportunities to meet labour market needs (4 MS)

- Wage-setting mechanisms and labour cost development (5 MS), which relate to:
 - Minimum wage setting (2 MS)
 - Collective bargaining (4 MS)

In contrast, Member States demonstrated **good labour market outcomes** in the areas of:

- Labour market participation (16 MS)
- Labour market functioning, combatting segmentation (12 MS)
- Social security (13 MS)
- Work-life balance (10 MS)
- Job creation (5 MS)
- Gender equality (15 MS)
- Skill supply and productivity, lifelong learning (13 MS)
- Education and training systems (9 MS)

Figure 3: Summary overview of KECs and GLMOs across the EU per JAF policy area



b. Review of the employment trends identified in the 2020 EPM dashboard

This section provides an overview of recent developments in the employment situation in the EU, based on the results from the latest edition of the EPM dashboard, a tool which uses the main indicators under the 10 JAF Policy Areas to identify common EU employment ‘trends to watch’ and ‘positive recent trends’⁹ with the aim of identifying common labour market trends in the European Union.

In the EU as a whole the following main negative trends, or ‘trends to watch’, are identified for the most recent period, 2018-2019¹⁰ (Figure 8). These figures do not take into account the impact of the COVID-19 crisis and thus may not be fully representative of the current situation:

- A deterioration in the **nominal unit labour costs** in a majority of Member States (in 22 MS)
- An increase in the **at-risk-of-poverty rate among the unemployed** (registered in 13 MS), even though a decrease was observed in 7 MS
- A deterioration in **inactivity and part-time work due to personal and family responsibilities** in 9 MS, whereas an improvement was observed in other 9 MS

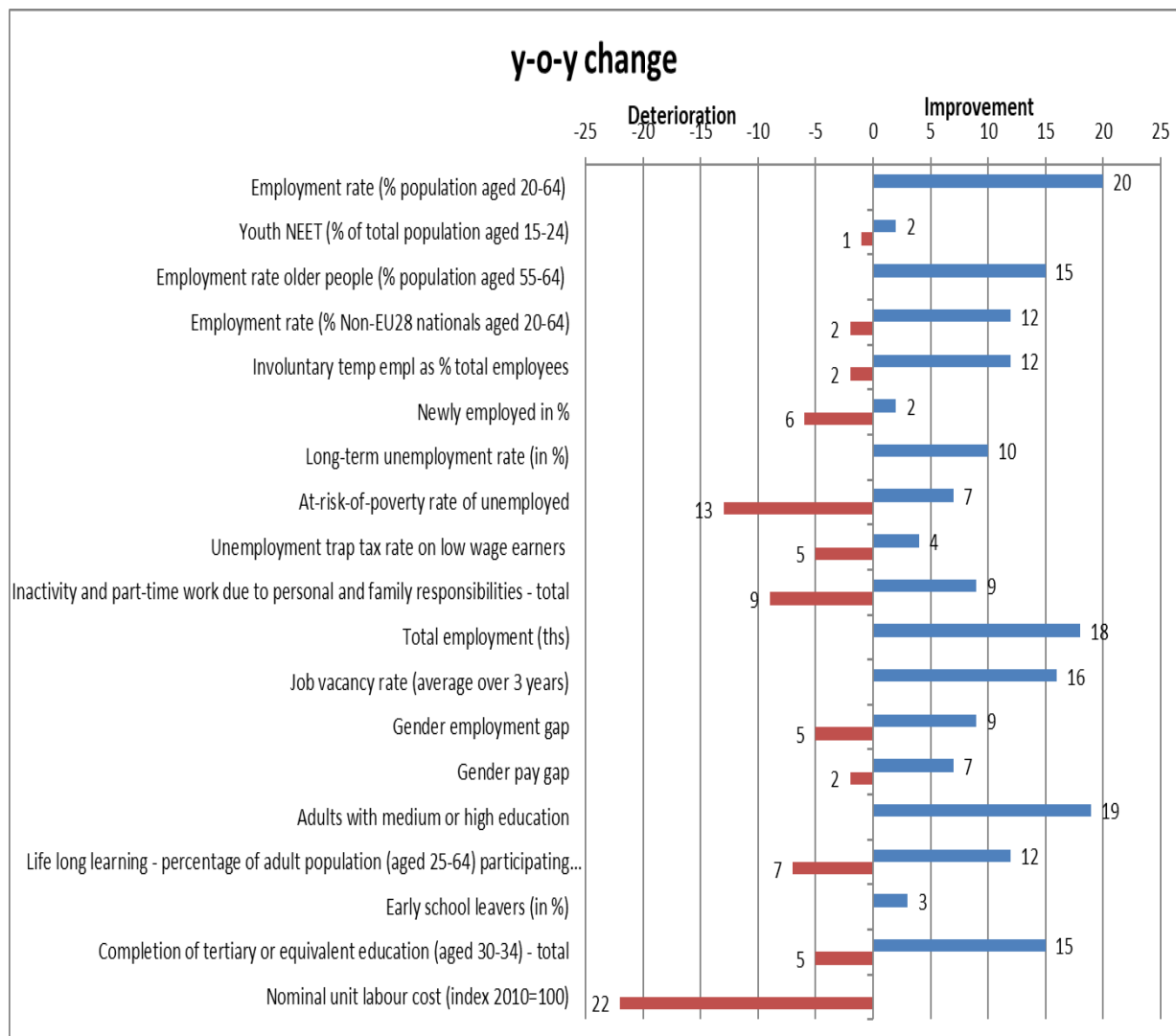
In contrast, positive developments in the labour market and social situation can be observed in the following areas:

- An increase in the **employment rate** (in 20 MS)
- An increase of the **share of adults with medium or high education** (in 19 MS)
- An increase in **total employment** (in 18 MS)
- An increase in the **job vacancy rate** (in 16 MS)
- An increase in the **rate of employment of older workers** (in 15 MS)
- A decrease in the **long-term unemployment rate** (in 10 MS)

⁹ Common trends are identified when around 1/3 of Member States show a notable deterioration/ improvement.

¹⁰ These figures refer to the period before the COVID 19 crisis and thus may not be fully representative of the current situation.

Figure 4: Employment trends to watch and areas of improvement for the period 2018-2019



Looking at the longer-term developments (over three years), the areas with the most substantial deterioration compared to 2016 are (Figure 9):

- An increase in the **at-risk-of-poverty rate among the unemployed** (registered in 14 MS)
- A deterioration in the **nominal unit labour cost** in 14 MS

In contrast, positive developments can be observed in the following areas:

- An increase in the **rate of employment of older workers** (in 28 MS)
- An increase in the **employment rate** (in 25 MS)

- An increase in the **rate of employment of non-EU nationals** (19 MS)
- An increase of the **share of adults with medium or high education** (in 18 MS)
- An increase in the **job vacancy rate** (in 17 MS)
- An increase in **total employment** (in 17 MS)
- A decrease in the **NEET rate** (registered in 16 MS)
- A decrease in the number of the **long-term unemployed** (in 16 MS)
- A decrease in the number of employees in **involuntary temporary employment** (16 MS)

Figure 5: Employment trends to watch and areas of improvement for the period 2016-2019

