

THE EFFECT OF THE COVID-19 RECESSION ON THE YOUTH LABOUR MARKET IN AUSTRALIA

DISCUSSION PAPER

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EXECUTIVE SUMMARY

The COVID-19 pandemic hit the Australian economy hard in 2020, ending nearly three decades of growth and causing serious disruptions to the Australian labour market. The recession occurred on the back of a decade of high unemployment and stagnant earnings for young workers that followed the Global Financial Crisis (GFC). Young workers always suffer more than older workers during recessions, but the COVID-19 economic shock was particularly bad. Many young people work in contact-intensive sectors, such as hospitality and arts and recreation services, which serve as important ports for labour market entry. With these sectors being partially closed, it was hard for young people to get a foot onto the first rung of the job ladder.

Since the economic shock in 2020, however, the Australian labour market has rebounded strongly. Macroeconomic forecasters expect the unemployment rate to fall to levels not seen in half a century and remain there for some time. Many young Australian workers have benefited from this recovery, with the youth unemployment rate declining significantly. But, as this paper shows, not all young Australians have shared in the economic recovery and some have been left behind.

History tells us that recessions can have 'scarring effects' on job market outcomes of young people for up to a decade after the event, with the Global Financial Crisis being a clear example.

Despite the current exceptional strength in the labour market, the share of young people that are employed remains below levels observed in the period prior to the GFC, and the share of young workers that have been out of a job for a long period of time remains elevated. The labour market needs to remain very strong for a sustained period to allow more young people to benefit from the recovery.

Guided by history, we develop a conceptual framework for identifying potential long-term scarring effects on the Australian youth labour market. This framework highlights four potential channels through which scars might appear:

Reduced job match quality

Recessions decrease labour mobility, the quality of the first job and the quality of the job match for those entering the labour market for the first time. This can make it harder for young workers to climb the first rungs of the job ladder, which in turn can have significant effects on their lifetime incomes.

Delayed labour market entry

Recessions cause delays for young people transitioning to employment, with these delays causing skill atrophy, diminished labour market attachment, lower motivation and increased employer stigma.

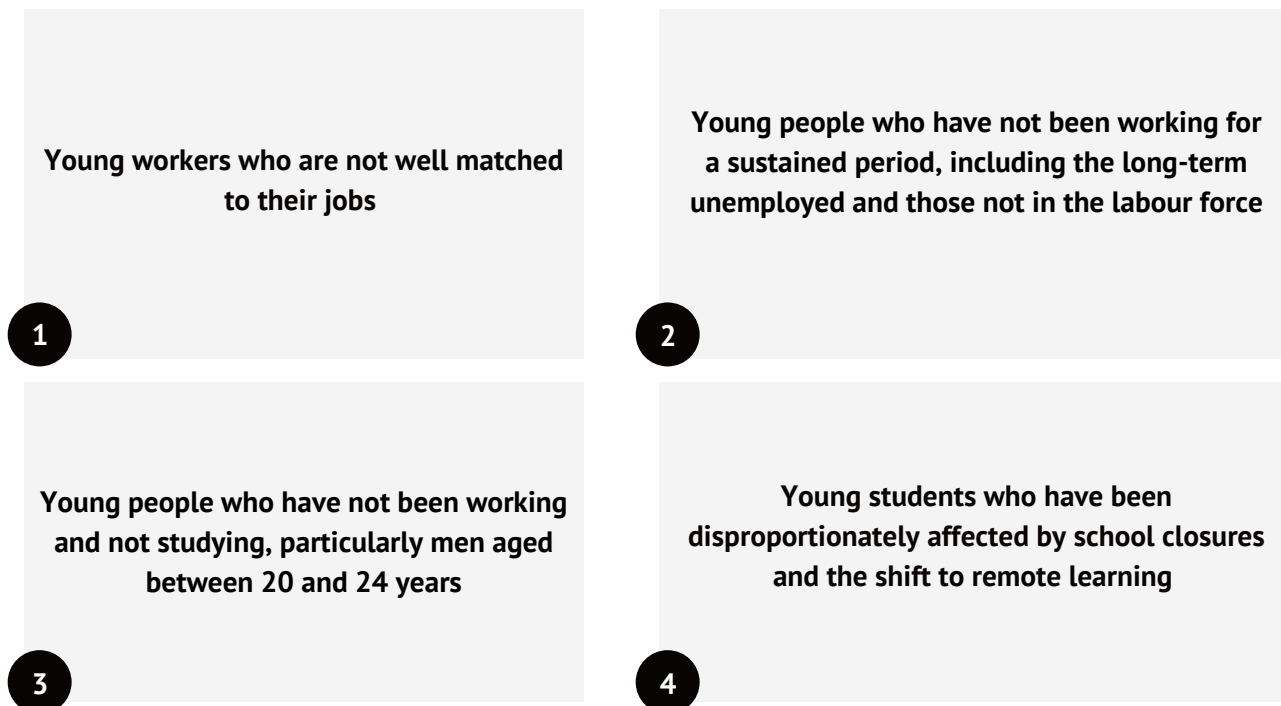
Lower education participation

Recessions make it harder to pay for formal education, which reduces the quality of learning and lowers investment in human capital. This reduced investment can then lead to lower lifetime earnings.

Psychological scarring

Recessions cause young workers to become more pessimistic and uncertain about their future job prospects, which can reduce the effort they put into searching for jobs.

Through this analysis we identify four specific groups of young Australians that have not shared in the benefits of the economic recovery and are most vulnerable to such long-term scarring effects. Policies should thus be designed to consider the needs of:



In partnership with the Paul Ramsay Foundation, the e61 Institute will develop and publish real-time trackers of the youth labour market that focus on these vulnerable groups going forward. This will allow the ongoing effects of the COVID-19 pandemic on young Australians to be identified and quantified. A companion paper examines the potential policy responses to mitigate these impacts on the youth labour market. Taken together, this research is expected to provide an evidence base for policy actions to mitigate the scarring effects of the pandemic on the employment outcomes and welfare of young Australians.

Acknowledgements

The Paul Ramsay Foundation's mission is to break cycles of disadvantage in Australia. The Foundation's focus is on the most stubborn barriers to change, where multiple cycles of disadvantage collide and experiences of disadvantage persist across generations.

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TABLE OF CONTENTS

Executive Summary	02
Introduction	07
The Scarring Effects of Recessions: Key Channels and the COVID-19 Shock	10
The Distributional Effects of the COVID-19 Pandemic on the Youth Labour Market	13
The COVID-19 mobility shock	13
The COVID-19 sectoral shock	18
The COVID-19 remote learning shock	21
The COVID-19 economic uncertainty shock	24

INTRODUCTION

Young workers typically fare worse than older workers during recessions. The COVID-19 economic shock was no exception, with the unemployment rate for young workers rising sharply at the onset of the pandemic (Figure 1A). The recession hit young workers particularly hard because the sectors that were most affected initially – hospitality and arts and recreation services – are relatively large employers of young Australians.

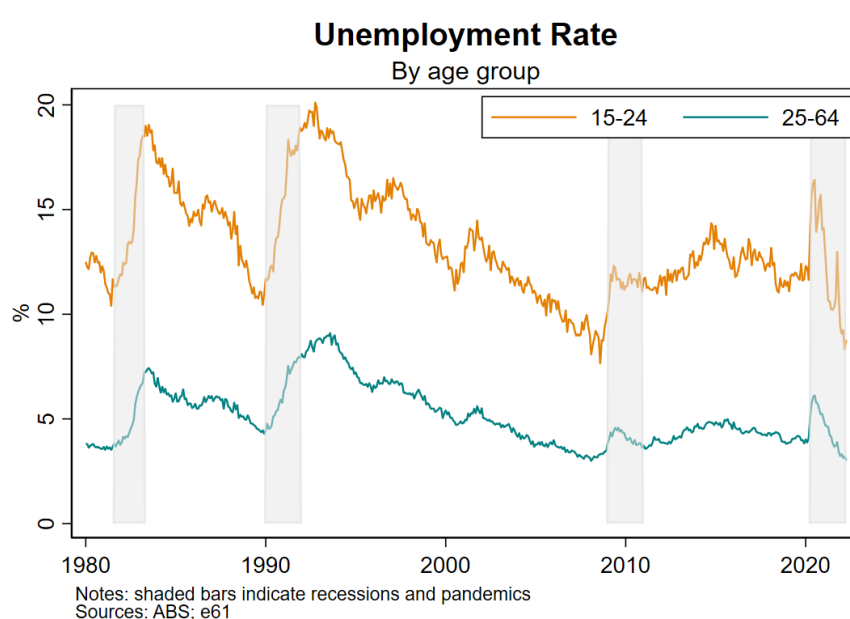


Figure 1A: Youth unemployment is highly sensitive to recessions

Since the initial shock, however, the Australian labour market has proved to be surprisingly resilient. Macroeconomic forecasters expect the unemployment rate to drift below 4 per cent and remain there for the foreseeable future. Many young Australian workers have benefited from the strong recovery, with the youth unemployment rate declining sharply over the past year. But, as this paper will show, not all young Australians have shared in the recovery – some have been left behind.

History tells us that recessions have ‘distributional effects’, with young workers typically experiencing more serious consequences in the short-run and over the longer run. There is extensive evidence, both from Australia and abroad, that recessions have long-term ‘scarring effects’ on the job and earnings prospects of young workers for up to a decade after the event (e.g. Andrews et al 2020; Day and Jenner 2020; Raaum and Røed 2006; Yagan 2019).

The Global Financial Crisis (GFC) is a notable example. The GFC was a mild economic downturn in Australia and yet there is clear evidence of structural issues in the youth labour market following that period (Borland 2020). Since the GFC, the average young worker has experienced no growth in real income while older workers have seen their real incomes increase by nearly one-third (Figure 1B). There is some evidence to suggest that the 'income gap' between young and older workers was apparent even during the 2000s.

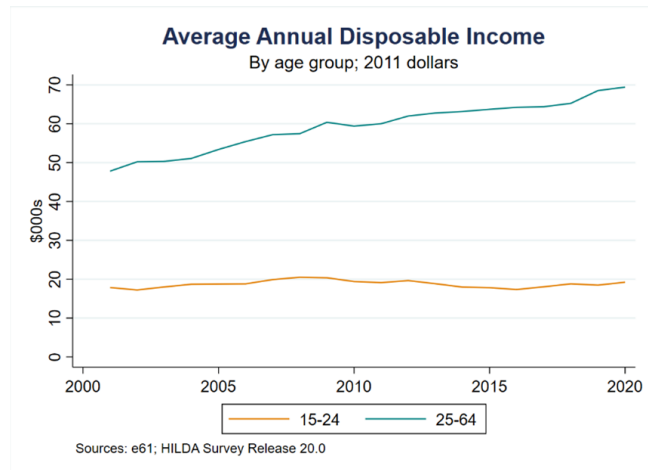


Figure 1B: Average youth income has stagnated over recent decades

The average young Australian today is less likely to be employed than in the period prior to the GFC (Figure 1C) and is much more likely to be unemployed for more than a year (Figure 1D).

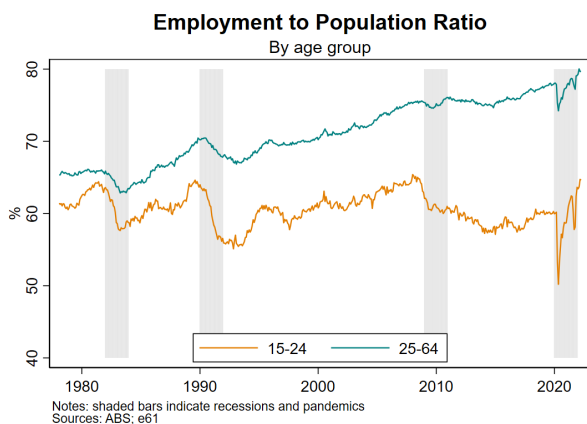


Figure 1C: The share of young people working is still lower than before the GFC despite the recent strong recovery

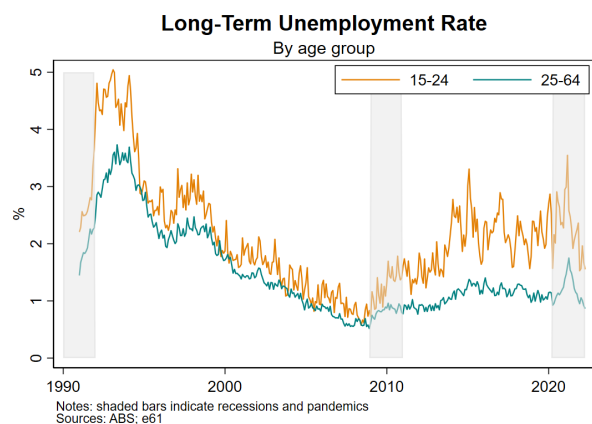


Figure 1D: The share of young people that are unemployed for more than a year remains elevated

This paper explores in detail the effects of the economic recession associated with the COVID-19 pandemic on the youth labour market in Australia.

We first posit a conceptual framework to identify the potential channels through which the COVID-19 recession may impart scarring effects on young Australians. The framework is based on both historical and international evidence about the labour market outcomes of young people during recessions.

We then use this conceptual framework to examine the labour market outcomes of young Australians during the initial economic shock in 2020 and the subsequent recovery in 2021. We look for early evidence of COVID-related scarring in the Australian youth labour market using a range of timely and granular datasets. These include the Household Income and Labour Dynamics in Australia (HILDA) Survey, which tracks the labour market outcomes for about 20,000 Australians between 2001 and 2020. We also rely on the Longitudinal Labour Force Survey (LLFS) which tracks the labour market outcomes of a sample of about 50,000 people in 26,000 dwellings each month since 1982. The individual-level data are typically released about 4-6 weeks after the relevant survey month, such that the latest data point is for April 2022.

In our analysis, we define young people as those aged between 15 and 24 years. Disadvantaged people are defined as those in the bottom decile of the 2011 Socio-Economic Indexes for Areas (SEIFA) index of economic resources. In the HILDA Survey, this measure is available at the level of the individual worker. We measure disadvantage at the individual level, rather than by geographic region, to capture the fact that levels of disadvantage vary within regions.



We find evidence that several groups of young Australians have been 'left behind' despite the strong labour market recovery over the past year. These include young workers that are not well matched to their jobs as well as young workers from disadvantaged backgrounds that lost their jobs during the pandemic. These young Australians appear particularly vulnerable to economic scarring effects. We also find some early evidence of scarring on human capital accumulation, with a sharp increase in the share of young men who are not in employment, education or training during the COVID-19 pandemic. There is also evidence that young Australians have withdrawn from education participation during the pandemic, particularly those from disadvantaged backgrounds.

It is still too early to say anything definitive about the long-term economic effects of the COVID-19 pandemic on the youth labour market. However, our analysis indicates that benign accounts should be met with caution given the structural headwinds prevailing in the youth labour market – especially depressed labour mobility – in the decade leading up to the COVID-19 pandemic.

THE SCARRING EFFECTS OF RECESSIONS: KEY CHANNELS AND THE COVID-19 SHOCK

CONCEPTUAL FRAMEWORK

The Australian labour market – two years into the pandemic – appears buoyant and the macroeconomic narrative has shifted to emerging inflation risks. But top-down assessments of the effects of recessions have a checkered history. In the aftermath of the GFC, macroeconomic studies initially dismissed the relevance of hysteresis or scarring effects for the US labour market (Fernald et al 2017), only to be subsequently overturned by more granular studies that revealed that certain groups had been left behind (Yagan 2019; Rothstein 2019).

This was particularly the case for young workers in Australia that entered the labour market around the GFC. Using high-quality microdata spanning almost three decades, Andrews et al (2020) estimate that workers exposed to a 5 percentage point higher state youth unemployment rate upon entry – roughly equivalent to the shock experienced in Victoria during the GFC – experience 3½ per cent lower wages and ¾ per cent lower employment probabilities five years on than comparable workers in other states. Moreover, the analysis suggests that the GFC imparted more serious scars on the youth labour market than the early 1990s recession, despite the fact that the aggregate unemployment rate rose much more sharply in the 1990s episode. This partly reflects structural headwinds to labour mobility in the post-GFC era, which undermined the ability of young workers experiencing skills mismatch to switch to more productive – and better paying – firms.

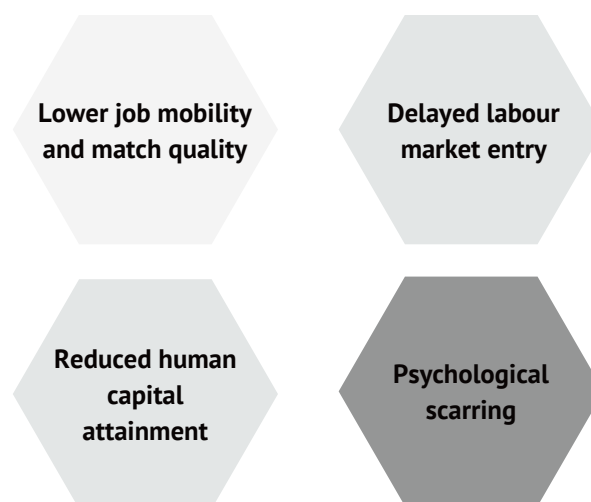


Figure 2: Potential Channels for Long-Term Scarring Effects on the Youth Labour Market

Against this backdrop, we provide a simple empirical framework to identify the potential scarring effects of the COVID-19 economic downturn (Figure 2). The framework is based on both historical and international evidence about the labour market outcomes of young people during recessions (see Borland 2020 for an overview of the Australian and international research).

<p>Lower worker mobility and job match quality</p>	<p>Delayed labour market entry</p>
<p>Recessions cause a decrease in the quality of first job and/or quality of job match obtained by new entrants for two reasons (Liu, Salvanes and Sorensen 2016; Oreopoulos, von Wachter and Heisz 2012). First, a relative shortage of high-quality jobs in a downturn forces workers to shift down the job quality ladder and potentially take jobs to which they are less well matched. Second, recessions often damage labour mobility prospects, which can lead recent entrants to be trapped in poorly matched jobs. Thus, the incidence of mismatch is likely to be greater following a sustained period of weakness in the labour market, such as the post-GFC youth labour market (Andrews et al 2020).</p>	<p>Recessions cause delayed entry into employment, for both first-time entrants and for those re-entering the labour market (Genda, Kondo and Ohta 2010; Kahn 2010; von Wachter 2020). When people are unemployed or out of the labour force, their skills can atrophy, their labour market attachment may diminish, their motivation may suffer and employers may develop stigma against them. These delays can have adverse long-term effects on their future employment and earnings prospects.</p>
<p>Reduced human capital investment</p>	<p>Psychological scarring</p>
<p>Recessions can reduce the ability and willingness of people to pay for formal education which, in turn, may cause lower investment in human capital (Stuart 2022). On the other hand, given the paucity of job opportunities, recessions may reduce the opportunity cost of study, and thereby underpin increases in educational attainment among some young people.</p>	<p>Recessions can adversely affect the subjective beliefs of workers, causing more pessimism and greater uncertainty. Moreover, these effects can persist well beyond the initial recessionary shock. Previous research has shown that consumers that have lived through periods of high unemployment remain pessimistic about their future financial situation and spend less in future years than those that have not lived through high unemployment (Malmendier and Shen 2021). Similarly, CEOs that are exposed to recessions in their formative years tend to adopt more conservative business strategies down the track (Schoar and Zuo 2017).</p>

THE SCARRING EFFECTS OF RECESSIONS: KEY CHANNELS AND THE COVID-19 SHOCK

THE COVID-19 ECONOMIC SHOCK

The nature of the COVID-19 shock may have aggravated the canonical sources of scarring through several mechanisms:

MOBILITY SHOCK

The pandemic constrained the mobility of workers to move location and switch to better matched jobs, hampering their ability to climb the job ladder. Recessions – particularly the GFC in Australia – tend to damage match quality by depressing labour mobility, causing recent labour market entrants to remain trapped for longer in low productivity – and low paying – firms (Andrews et al 2020).

SECTORAL SHOCK

The pandemic caused contact-intensive sectors, such as hospitality and arts and recreation services, to temporarily shut down, which removed the first rungs of the job ladder for many young workers.

SCHOOL CLOSURE SHOCK

The pandemic caused schools, universities and technical colleges to close for extended periods, which significantly disrupted student learning and the quality of education, which in turn reduced investment in human capital and could adversely affect the long-term earnings potential of this generation of young Australians.

UNCERTAINTY SHOCK

The pandemic caused sustained lockdowns in some parts of the country, and could leave scarring effects on the beliefs of young Australians. First-time entrants to the workforce might have low expectations about finding a job, and this early career experience may cause them to continue to expect to not get a job. Young workers may also believe they are at greater risk of losing their jobs, and this heightened uncertainty may persist for some time.



THE DISTRIBUTIONAL EFFECTS OF THE COVID-19 PANDEMIC ON THE YOUTH LABOUR MARKET

Next, we consider the empirical evidence for each of these channels by taking a close look at the Australian youth labour market through the COVID-19 pandemic. We explore how various groups of young Australians fared through the initial economic shock in 2020 and the labour market recovery since then.

THE COVID-19 MOBILITY SHOCK: REDUCED LABOUR MOBILITY AND JOB MATCH QUALITY

A key risk of economic scarring relates to the pandemic's adverse impacts on labour mobility and the vast evidence linking higher job mobility to wage growth.

Workers typically switch jobs for a pay rise. Job switchers experience faster wage growth than job stayers on average (of about 2.4 percentage points per annum) (Figure 3A).

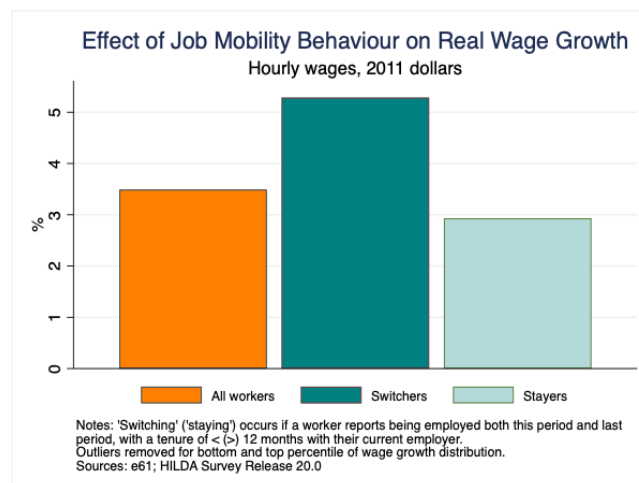


Figure 3A: Job mobility matters to wage growth

These gains partly arise from improved match quality, with particularly large wages gains recorded for workers that transition from mismatched to matched roles (Figure 3B).

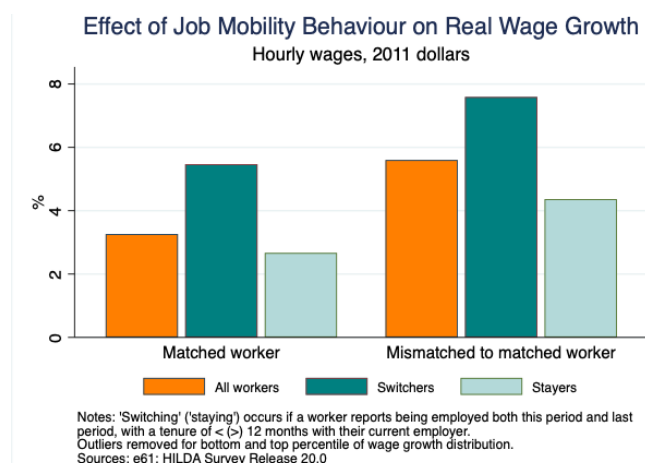


Figure 3B: Job mobility has a particularly strong effect on wage growth for mismatched workers

But there is also an indirect effect: when workers have more outside options, employers will need to issue more attractive offers to retain them, which implies that worker bargaining power rises in more fluid labour markets. Indeed, the decline in job-to-job transitions since the GFC – particularly among young workers – has been a key factor explaining tepid wage growth, which was consistently overestimated by macroeconomic forecasters in the years preceding the pandemic (Deutscher 2019).

Pandemic-induced scarring via the mobility channel is likely to be more pronounced for young and disadvantaged Australians.

First, job mobility is particularly crucial for young workers, given their greater need to sort into well-matched jobs in the formative years of their careers (Topel and Ward 1992). Young job switchers experience much faster wage growth than older job switchers, on average (Figure 3C). This is consistent with evidence suggesting that 80 per cent of career earnings growth occurs in the first decade of work (Murphy and Welch 1990).

Second, disadvantaged young workers tend to experience larger wage gains from switching jobs than those that are not disadvantaged (Figure 3D). This may be due to disadvantaged workers lacking the networks to place them in lucrative and well-matched roles from the outset, underscoring the idea that (voluntary) job mobility is also important for inclusive growth.

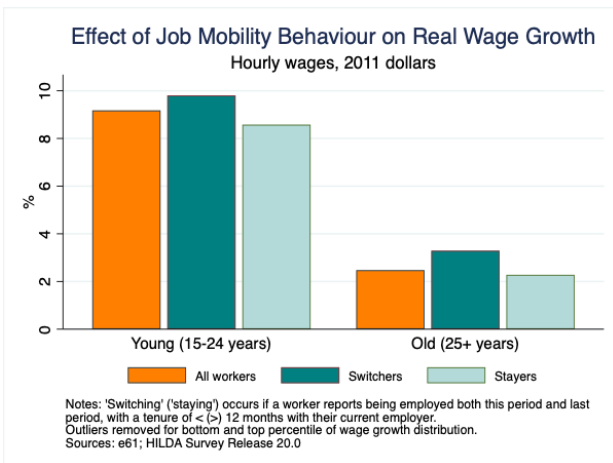


Figure 3C: Young job switchers benefit the most in terms of wage gain

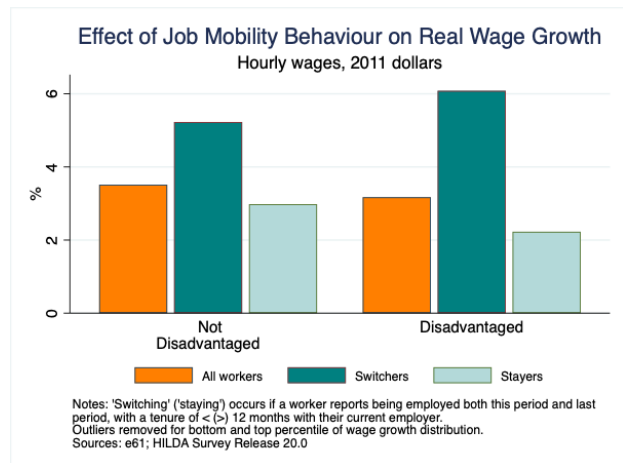


Figure 3D: Disadvantaged workers also benefit greatly from switching jobs

Job-to-job transitions for young workers fell in the early stages of the pandemic due to several factors, including the hit to confidence, lockdowns curbing mobility and the policy response – most notably the JobKeeper scheme – which bound workers to firms. The labour market recovery since 2021 has been associated with a pick-up in job-to-job transitions, though the mobility rate for young workers remains lower than before the GFC (Figure 4A).

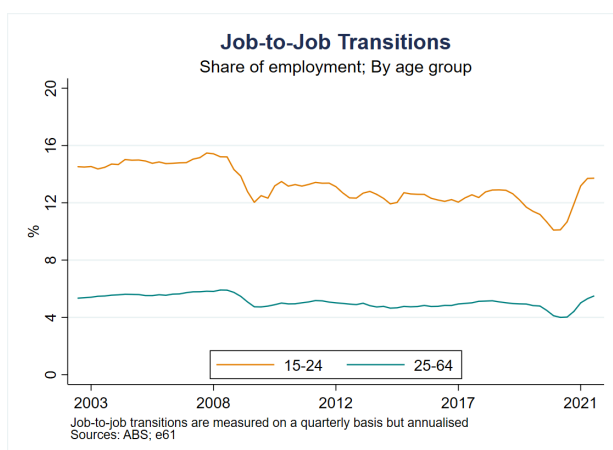


Figure 4A: The rate of job mobility initially fell sharply for young workers in the pandemic, but has bounced back strongly too

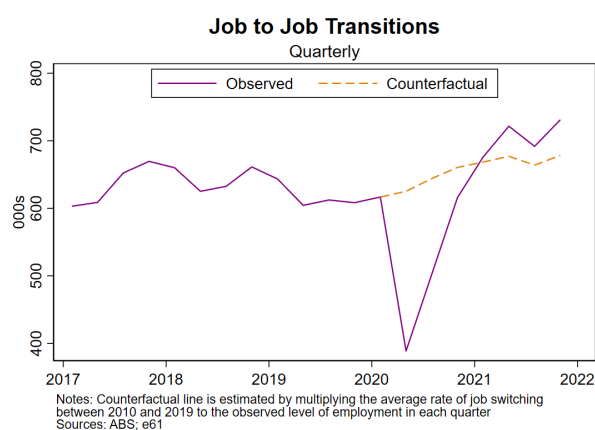
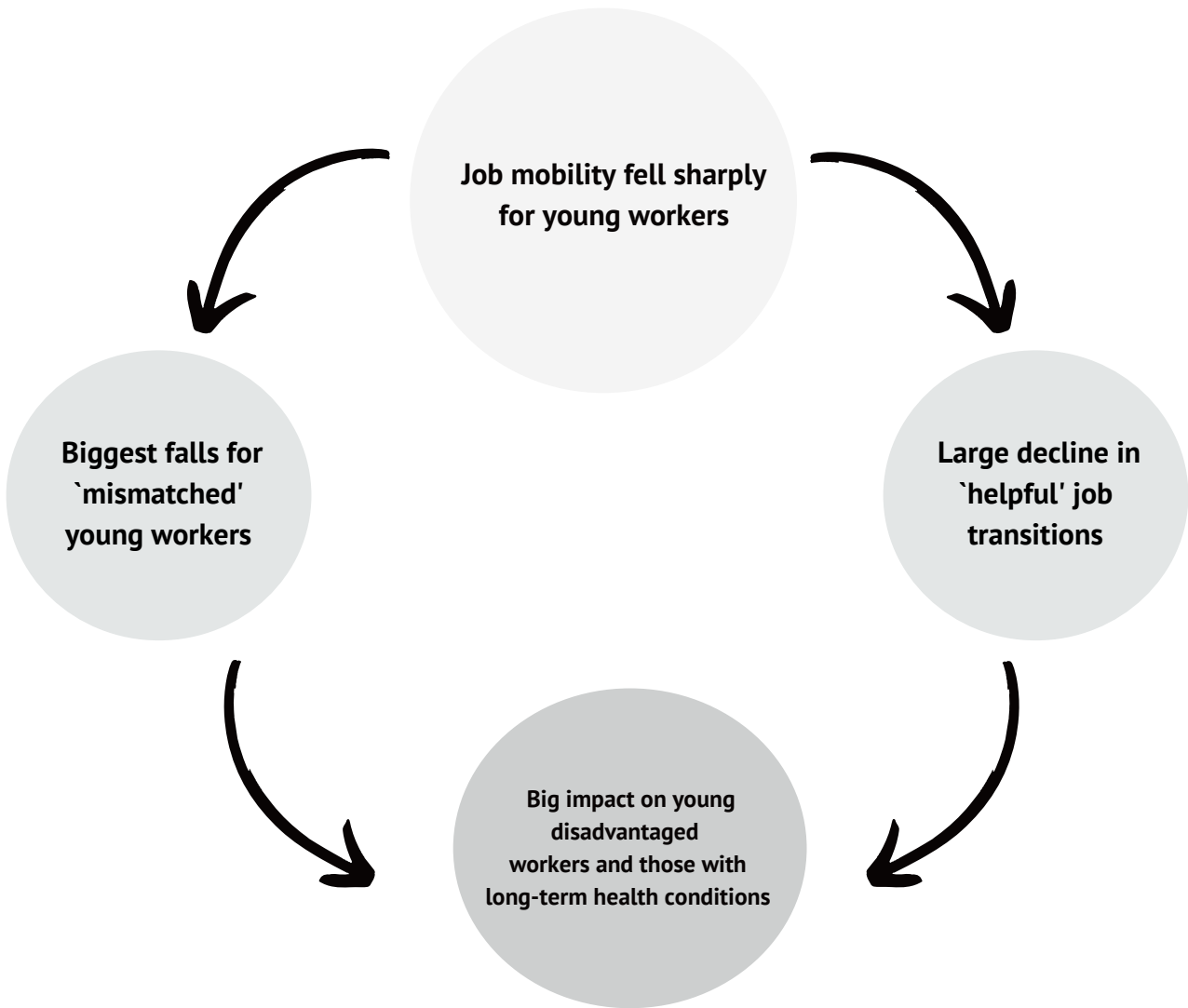


Figure 4B: Despite the recovery, a significant number of job transitions were 'lost' during the initial pandemic shock

As discussed below, one consequence of the mobility shock was a significant reduction in match quality, which raises the prospect of scarring effects. Evidence from the HILDA Survey shows that the rate of skill mismatch – especially under-skilling – rose during 2020, especially for younger workers. Against this backdrop, the recovery in job mobility since 2021 is welcome but counterfactual estimates suggest that some 250,000 job-to-job transitions are still 'missing' due to the collapse in mobility in 2020 (Figure 4B). We estimate that job mobility rates will need to remain around current levels for close to two years to fill this 'gap'. But this may not make up for the disruption caused to the careers of young Australians for a few reasons.

Job mobility rates fell sharply during the COVID-19 pandemic for young workers that were not well matched to their jobs. The pandemic was also associated with a decline in the quality of job transitions, particularly for young workers from disadvantaged backgrounds.



The effect of declining job mobility on young disadvantaged workers

First, job mobility rates for young workers that entered the pandemic and were previously mismatched (or under-skilled) fell particularly sharply in 2020. In the absence of the pandemic, such workers – that have a strong need to switch jobs – would have ordinarily moved to better matched jobs, resulting in higher earnings (Figure 5A). This drop was more significant than that observed during the GFC, suggesting long-term scarring effects may be more extreme than those endured by the GFC cohort.

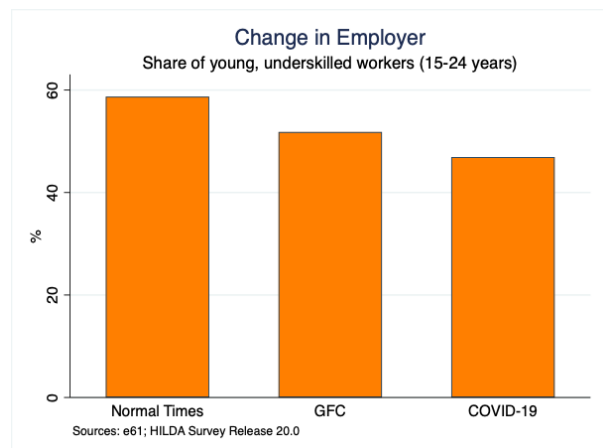


Figure 5A: Job mobility fell for young and poorly matched workers

Second, the pandemic was associated with a decline in the quality of – or what may be considered “helpful” – job transitions. That is, the share of young workers transitioning into better matched jobs – from previously mismatched or matched jobs – declined sharply. This marked decline was not observed for older workers, nor was it observed during the GFC (Figure 5B).

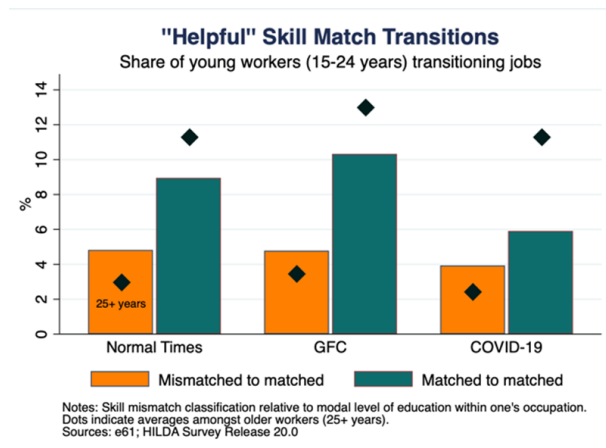


Figure 5B: The share of young workers shifting to better matched jobs fell sharply in the pandemic

Third, the decline in helpful job transitions was particularly pronounced for young and disadvantaged workers, and this decline was more significant than observed during the GFC (Figure 5C). This is concerning, given that disadvantaged workers disproportionately gain from job switching (Figure 3D), and raises the prospect that the pandemic may impart scars on Australia's most vulnerable young workers.

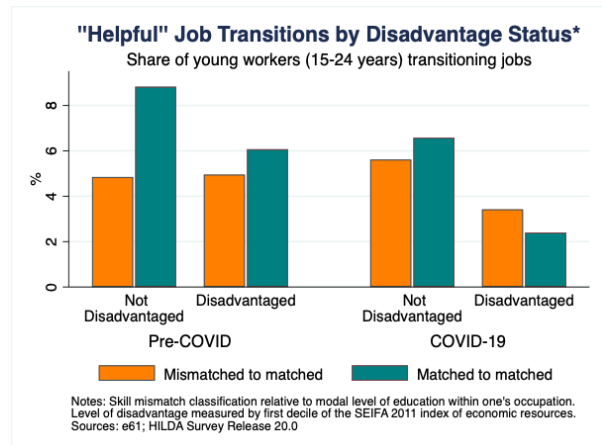


Figure 5C: Young and disadvantaged workers experienced a particularly sharp fall in 'helpful' job transitions

Finally, during the pandemic, job mobility fell to GFC-style levels among workers with pre-existing health conditions. Digging deeper, the pandemic engendered a disproportionately large decline in the share of helpful job transitions among such workers (Figure 5D), which was not observed during the GFC.

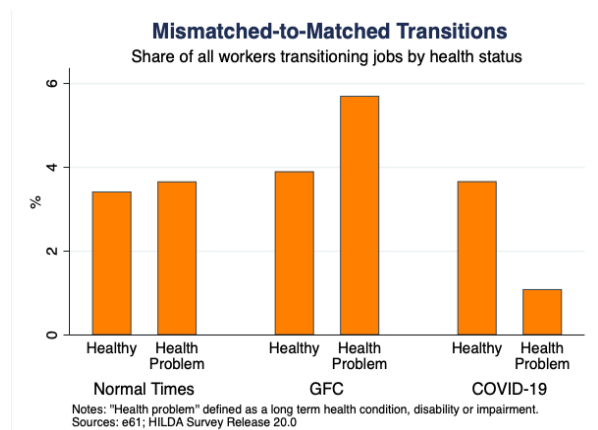


Figure 5D: The decline in helpful job transitions was also felt acutely by workers with a long-term health condition

THE COVID-19 SECTORAL SHOCK: DELAYED LABOUR MARKET ENTRY

The COVID-19 pandemic may also contribute to long-term scarring effects by delaying the entry of young Australians into the labour market. In a typical recession, young people find it harder to secure employment in entry-level jobs due to increased labour market competition. Greater competition leads to ‘bottleneck effects’ due to the delayed entry of earlier graduates. In the GFC, young Australians that were not engaged in full-time study and did not have undergraduate training experienced an 11 per cent decline in the probability of transitioning to employment. In contrast, young people with undergraduate training were mostly unaffected (Atkins et al 2020; Borland 2020). This decline in the probability of transitioning to employment has only been partly reversed more than a decade later.

It is conceivable that such labour market delays could occur in the COVID-19 pandemic given the nature of the health shock. Contact-intensive sectors, such as accommodation and food services and arts and recreation services, were partially closed during the pandemic. These industries are not only large employers of young workers, but are also ‘entry ports’ for those entering the labour market for the first time (new entrants) or those re-entering the labour force after a period of unemployment or being outside the workforce (re-entrants). Slightly more than 10 per cent of all young workers work in contact-intensive sectors, but more than 20 per cent of re-entrants and over 30 per cent of new entrants work in these sectors.

Young workers became much less likely to transition to employment during the COVID-19 shock of 2020. This was partly due to the closure of contact-intensive sectors, such as hospitality and arts and recreation services.

There is clear evidence that young workers were less likely to transition to full-time employment during the initial economic shock in 2020 (Figure 6A). These labour market delays were apparent for both young workers entering the labour market for the first time (new entrants) and for those returning after a period of unemployment or being out of the labour force (re-entrants). Both new entrants and re-entrants became less likely to transition to full-time employment in 2020 than at any time during the two prior decades (Figure 6B).

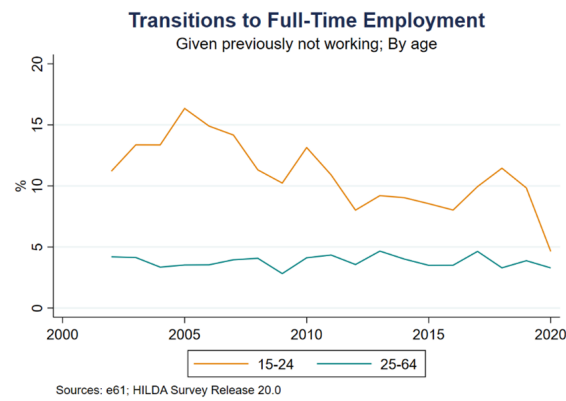


Figure 6A: In 2020, young people were less likely to find a full-time job than at any time in the past 20 years

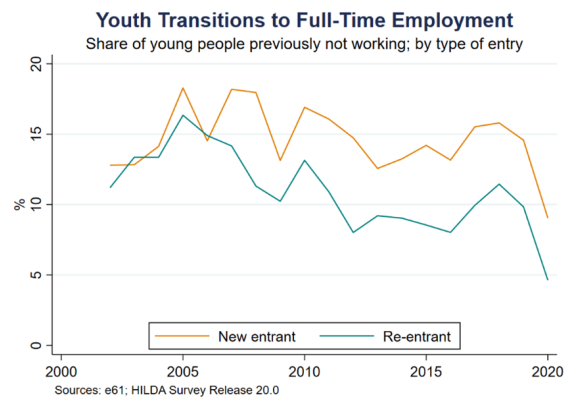


Figure 6B: Lower transitions to the youth labor market were apparent for both new entrants and re-entrants in the early stages of the pandemic

The delays in labour market entry in 2020 were partly due to the closure of contact-intensive sectors, such as hospitality and arts and recreation services.

More recent analysis using the LLFS suggests that new entries to the youth labour market have picked up to be around pre-GFC levels, given the strength of the economic recovery.

An increasing share of unemployed young people have been out of work for 2 years or more. The recent labour market recovery appears to have done little to change this.

Despite the labour market recovery, the delays to labour market entry for some young workers are long and lengthening. Long-term unemployment rates for young workers have been elevated since the GFC and continue to rise (Figure 7A). Most notably, there has been a clear increase in the very long-term unemployed – young people that are unemployed for two years or more. Since the GFC, young workers have become more likely than older workers to be very long-term unemployed. This is surprising and potentially concerning given that many young workers will not have had the opportunity to even work for two years.

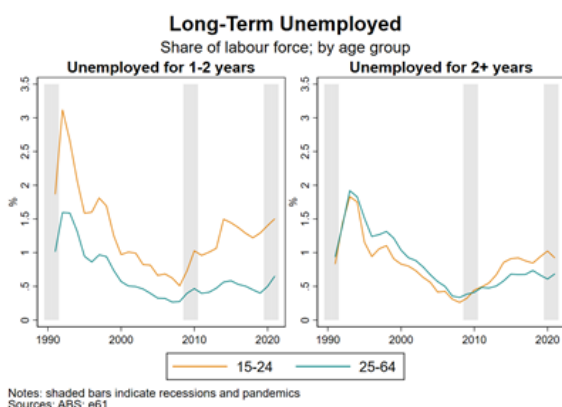


Figure 7A: The share of very long-term unemployed youth remains elevated despite the economic recovery

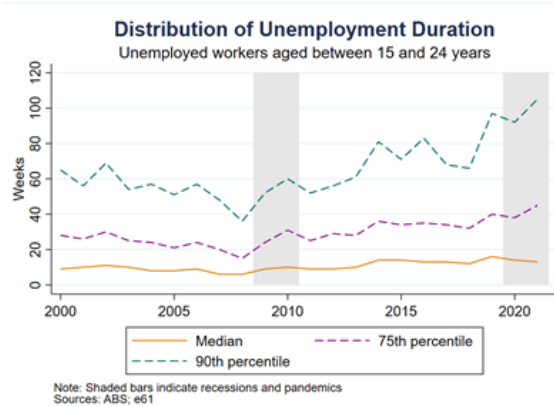


Figure 7B: There is a growing 'tail' of unemployed youth that is becoming increasingly detached from the workforce

The median duration of unemployment for unemployed young workers has increased slightly over the past decade. However, more starkly, the duration of unemployment continues to rise for those that have been unemployed for a lengthy period of time (the 75th and 90th percentiles). In fact, for the 90th percentile, unemployment duration has nearly doubled since the GFC (Figure 7B).

Delays to labour market entry were particularly acute for disadvantaged young workers in the early stages of the pandemic. According to the HILDA Survey, more than 40 per cent of disadvantaged young people were out of work in 2020 – the highest level in at least 20 years (Figure 8A).

Young disadvantaged workers from regional areas were some of the worst affected, along with those with a disability or long-term health condition. Furthermore, regions with relatively high shares of young disadvantaged workers experienced unemployment rates that were significantly higher than other regions even during the labour market recovery of 2021 (Figure 8B). These weaker labour market outcomes also translated into greater pessimism about finding jobs for young people from disadvantaged backgrounds. Taken together, this suggests that delays to labour market entry could continue to lengthen for young workers from disadvantaged backgrounds, even as the economy recovers.

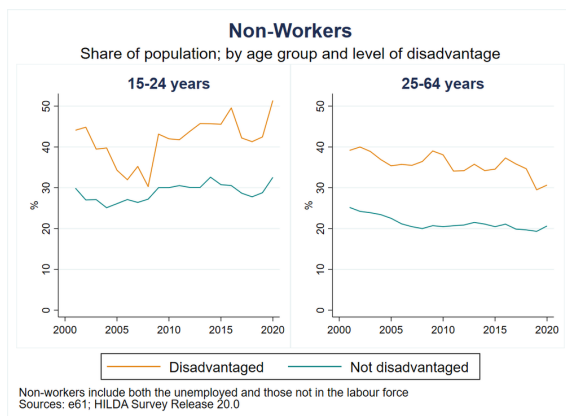


Figure 8A: In 2020, disadvantaged youth were less likely to be in work than at any time in the past 20 years

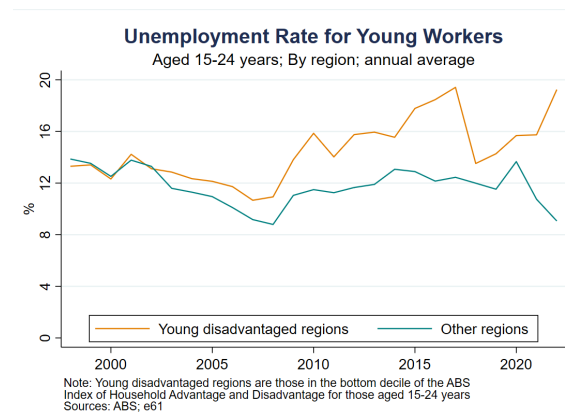


Figure 8B: In 2021, youth unemployment remained elevated in disadvantaged regions despite the recovery

THE COVID-19 REMOTE LEARNING SHOCK: REDUCED HUMAN CAPITAL INVESTMENT

Lockdowns and school closures associated with the COVID-19 pandemic caused significant disruptions to the education of every student in Australia. But some students were more affected than others. For instance, students from disadvantaged backgrounds living in remote areas and with limited access to the internet were more adversely affected than other students. This reduced quality of education could have long-run effects on the job prospects and earnings of these students when they do enter the workforce.

The COVID-19 pandemic caused some students to delay completing their courses or withdraw from their studies, with these effects being particularly acute for students from disadvantaged backgrounds.

There is evidence that the COVID-19 pandemic caused some students to unenroll or withdraw from their studies, and that this effect was particularly acute for students from disadvantaged backgrounds. For instance, disadvantaged students were almost twice as likely to report withdrawing from study than other students, according to the HILDA Survey in 2020 (Figure 9A). Disadvantaged students were also much more likely to experience an interruption to their studies during the initial stages of the pandemic (Figure 9B).

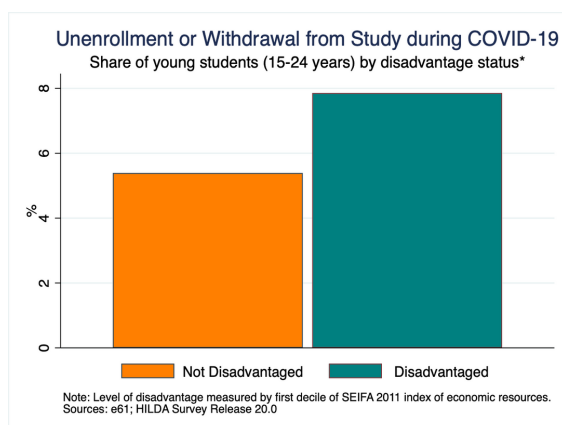


Figure 9A: Disadvantaged students were more likely to withdraw from study during the pandemic

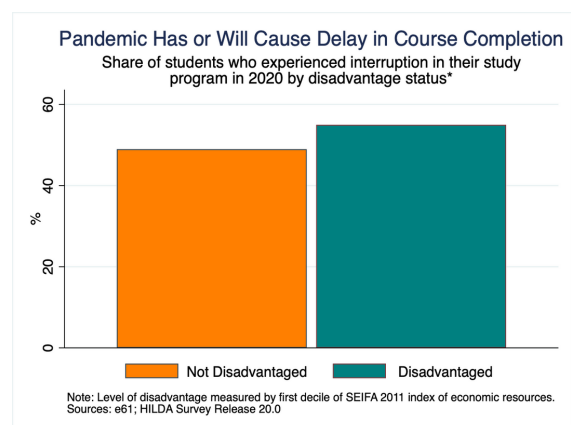


Figure 9B: Disadvantaged students were also more likely to experience study interruptions and delays in course completion

The COVID-19 pandemic may also have reduced educational attainment by limiting access to in-person traineeships and apprenticeships. This channel may be important given that young people can protect themselves from the scarring effects of unemployment by undertaking vocational education and training (VET) qualifications with a work-based training component (Waugh & Circelli 2021).

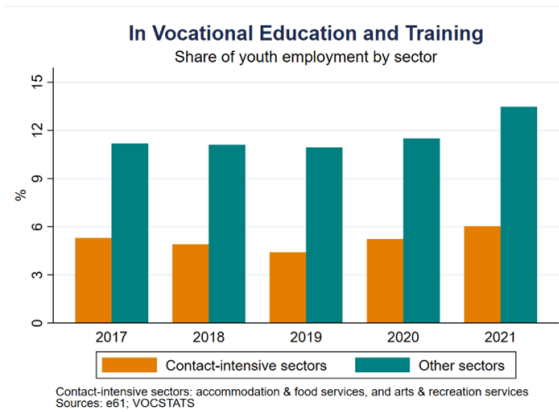


Figure 10A: The share of young people in VET courses increased significantly during the pandemic

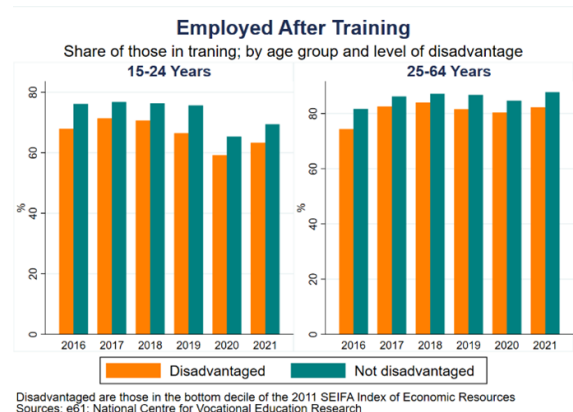


Figure 10B: Disadvantaged youth were less likely to find a post-training job than before the pandemic despite the recovery

On the surface, there is little evidence that the pandemic adversely affected the share of youth engaged in VET courses, with in-training rates rising on average through the pandemic (Figure 10A).

But, below the surface, there is some evidence of issues associated with the quality of that training. For instance, for the youth that engaged in such training during the pandemic, about 60 per cent got a job after training, which remains lower than the share in the period prior to the pandemic (Figure 10B). Young people from disadvantaged areas reported the lowest rates of transition to employment after training.

A key indicator of youth disengagement with the labour market is the share of young people who are not engaged in employment, education or training (NEET). Rising educational attainment caused the share of NEET youth to decline over the 1990s and 2000s. However, since the GFC, the share of people aged between 20 and 24 years that are NEET has stopped falling and, during the pandemic, there was a notable increase in the NEET share of males (Figure 11A).

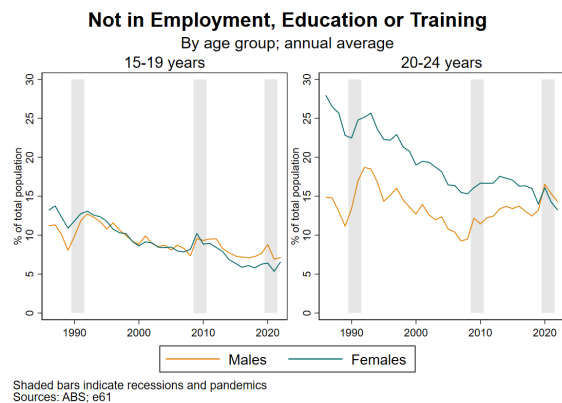


Figure 11A: The share of young men that are not working or studying increased sharply during the pandemic

More than 1 in 10 men aged between 20 and 24 years were not working or studying during the COVID-19 pandemic. These young men were more likely to be from disadvantaged backgrounds and living in regional areas.

This has reflected an increase in the share of young men that are becoming NEET and staying NEET (Figure 11B). Similar to the rise in long-term unemployment, a growing share of young men are both unemployed and out of full-time education for more than a year. These long-term NEET men are much more likely to be from disadvantaged backgrounds and living in regional areas according to the HILDA Survey.

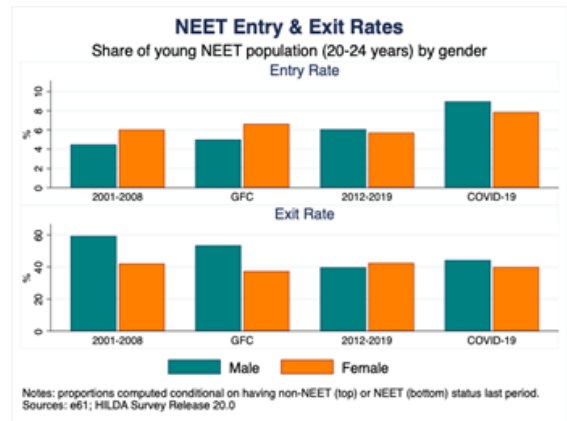


Figure 11B: A greater share of young men are out of work and study and fewer are transitioning back to work or study

Notably, young NEET males were especially likely to cite skill-related reasons for the difficulties they face in finding work, with the share of young NEET males reporting such skill-related reasons rising significantly during the pandemic. This suggests a lack of an effective skill-matching mechanism for this demographic. Psychological scarring is also prevalent among NEET youth. Expectations of finding suitable work decline with the time spent in NEET status, with this relationship being particularly strong for young females according to the HILDA Survey.

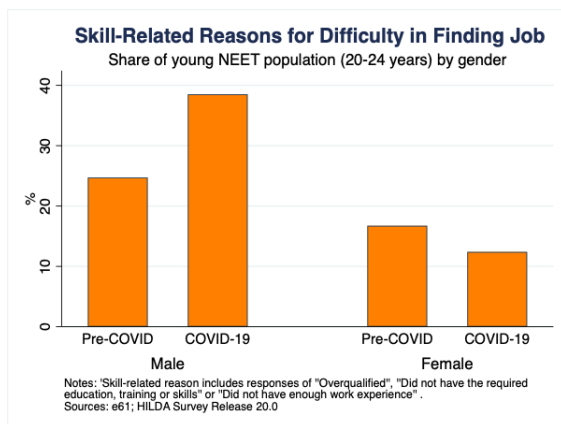


Figure 12A: Young men have become more likely to cite skill-related reasons for not working

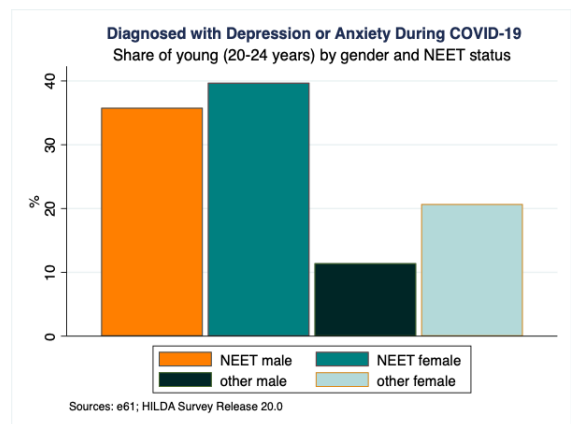


Figure 12B: Young people that are not working or studying are much more likely to report mental health issues

During the pandemic, young people that are neither working or studying also reported high rates of anxiety and depression.

While the absolute rate of depression or anxiety is highest among young NEET females, the difference between NEET and non-NEET rates was similar by gender. Furthermore, during the pandemic, there was a sharp increase in the share of NEET youth that reported mental health issues.

THE COVID-19 ECONOMIC UNCERTAINTY SHOCK: LOWER EXPECTATIONS ABOUT FUTURE JOB PROSPECTS

The COVID-19 pandemic could leave scarring effects on the beliefs of young Australians. For young people that entered the weak labour market of 2020, they would understandably have lower expectations about finding a job during a recession than in more normal times. But, more importantly, this early career experience may cause them to continue to expect to not get a job. For those that do have jobs, they may also believe they are at increased risk of losing their job, and this increased uncertainty about the future may linger for some time.

For those that were working during the pandemic, a relatively high share of young workers expected to lose their jobs (Figure 13A). This apparent increase in pessimism among young workers continued into 2022 despite the strong labour market recovery. In fact, the share of young workers expecting to lose their jobs has been elevated since the GFC, reinforcing the view that even mild economic downturns can leave psychological scars on young Australians.

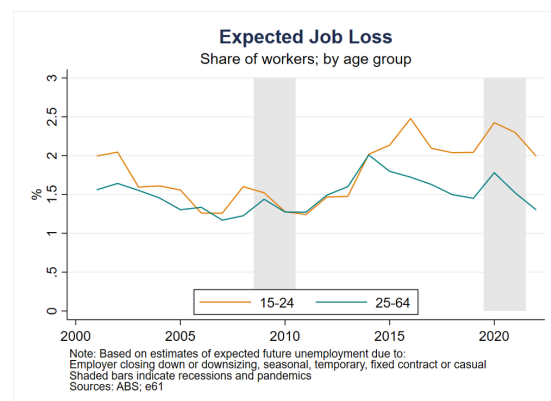


Figure 13A: Young workers were more concerned about losing their jobs than older workers during the pandemic

A relatively high share of young workers expected to lose their jobs during the COVID-19 pandemic. The share of young people expecting to be out of work has been elevated since the GFC.

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Disclaimers

HILDA Survey

This paper uses unit record data from Household, Income and Labour Dynamics in Australia Survey [HILDA] conducted by the Australian Government Department of Social Services (DSS). The findings and views reported in this paper, however, are those of the author[s] and should not be attributed to the Australian Government, DSS, or any of DSS’ contractors or partners. DOI: 10.26193/PI5LPJ

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