



Brotherhood  
of St Laurence

## THE TEENAGE DREAM UNRAVELS

### TRENDS IN YOUTH UNEMPLOYMENT

MARCH 2015

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**It can't be said enough, amid a steady rise in the overall unemployment rate, Australia's youth continue to bear the brunt – and teenagers are faring worst of all.**

More than 290,000 Australian youth aged 15 to 24 were categorised as unemployed in January. The worst hit were the 15 to 19 year olds, with the unemployment rate for this group hitting 20 per cent – a level not seen since the mid 1990s. Nearly 160,000 Australians aged 15 to 19 were unemployed in January, out of an overall pool of more than 780,000 unemployed.

This means one in five unemployed Australians today is a teenager.

Overall unemployment, across the age groups, continues the upward trend that began in the aftermath of the global financial crisis (GFC) in 2008. The crisis was not a sledgehammer to Australia, but its impact has been long-lasting and insidious, especially on the fringes of the labour force.

*My Chance, Our Future*  
**YOUTH EMPLOYMENT  
CAMPAIGN**

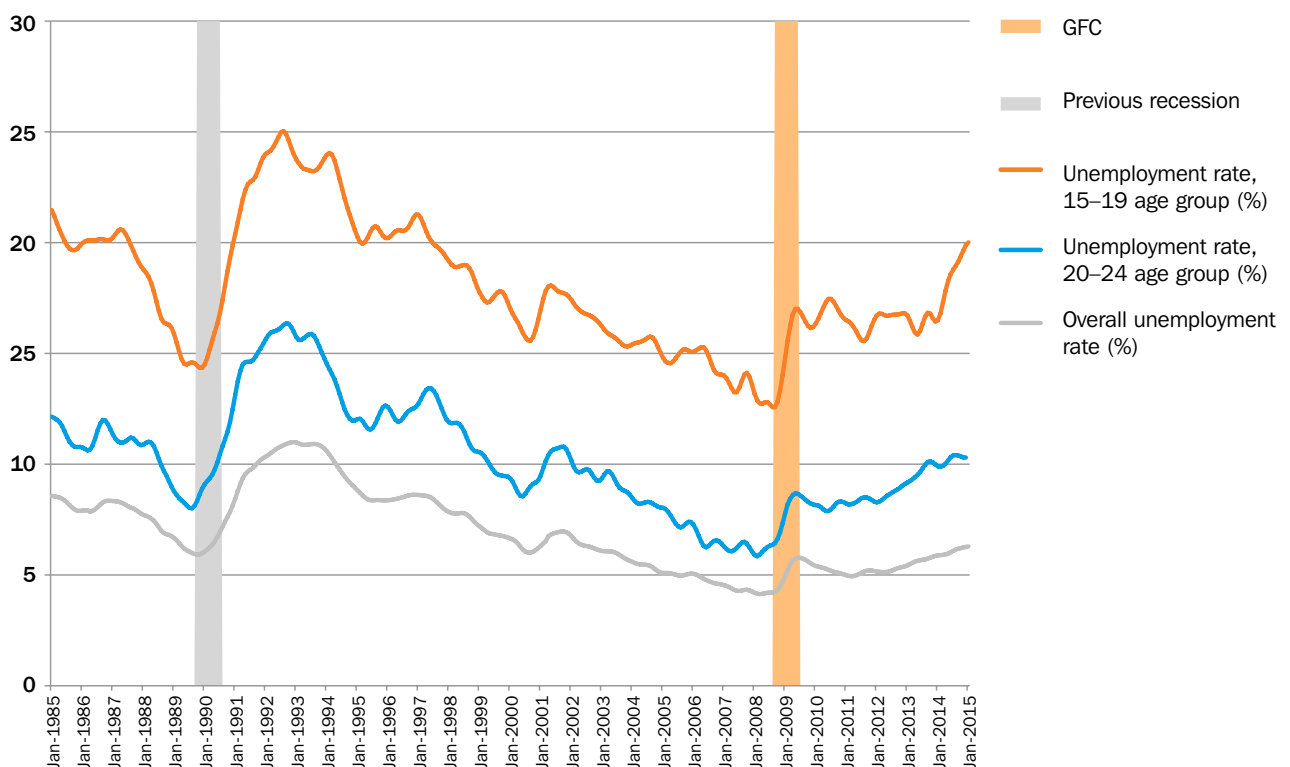
## FAULTLINES: THE GFC EFFECT

The latest trend data from the Australian Bureau of Statistics (ABS), which smooths out the volatility of the more often cited seasonally adjusted data, shows an overall national unemployment rate of 6.3 per cent in January 2015. This is its highest rate since July 2002 and, disturbingly, signals that unemployment woes in Australia are likely to continue.

The same data shows that the national youth unemployment rate (for 15 to 24 year olds) stood at 14 per cent in January, more than twice the overall unemployment rate.

As the graph shows, the impact of the GFC on employment has lasted far longer than the impact of the previous recession in the early 1990s. More than six years on from the GFC, unemployment is still rising. This is in stark contrast to the earlier recession, when national employment started to recover within two years.

**Figure 1: Unemployment rate (%) in Australia 1985 to 2015**



Source: ABS, *Labour force, Australia*, January 2015, cat. no. 6202.0, trend data

## WHAT IS DRIVING THE RISE IN UNEMPLOYMENT?

If you are 15 to 24 and looking for work, your probability of finding a job has steadily declined since the global financial crisis. Compared with other Australians, teenagers are less likely to move into a job from month to month and are more likely to fall into unemployment from month to month.

We calculated the monthly flows from unemployment into work using the Australian Bureau of Statistics data. Calculating the month-to-month moves from the ranks of the unemployed into the employed exposes some of the underlying faultlines of the unemployment problem in Australia.

From the considerable economics research on this issue we know that changes in unemployment fundamentally turn on two issues: the *job-finding probability* – the rate at which those looking for jobs move into employment, which tends to pull down the unemployment rate – and the *job-exit probability* – the percentage of employed people who become unemployed at a given point in time, which tends to increase the unemployment rate.

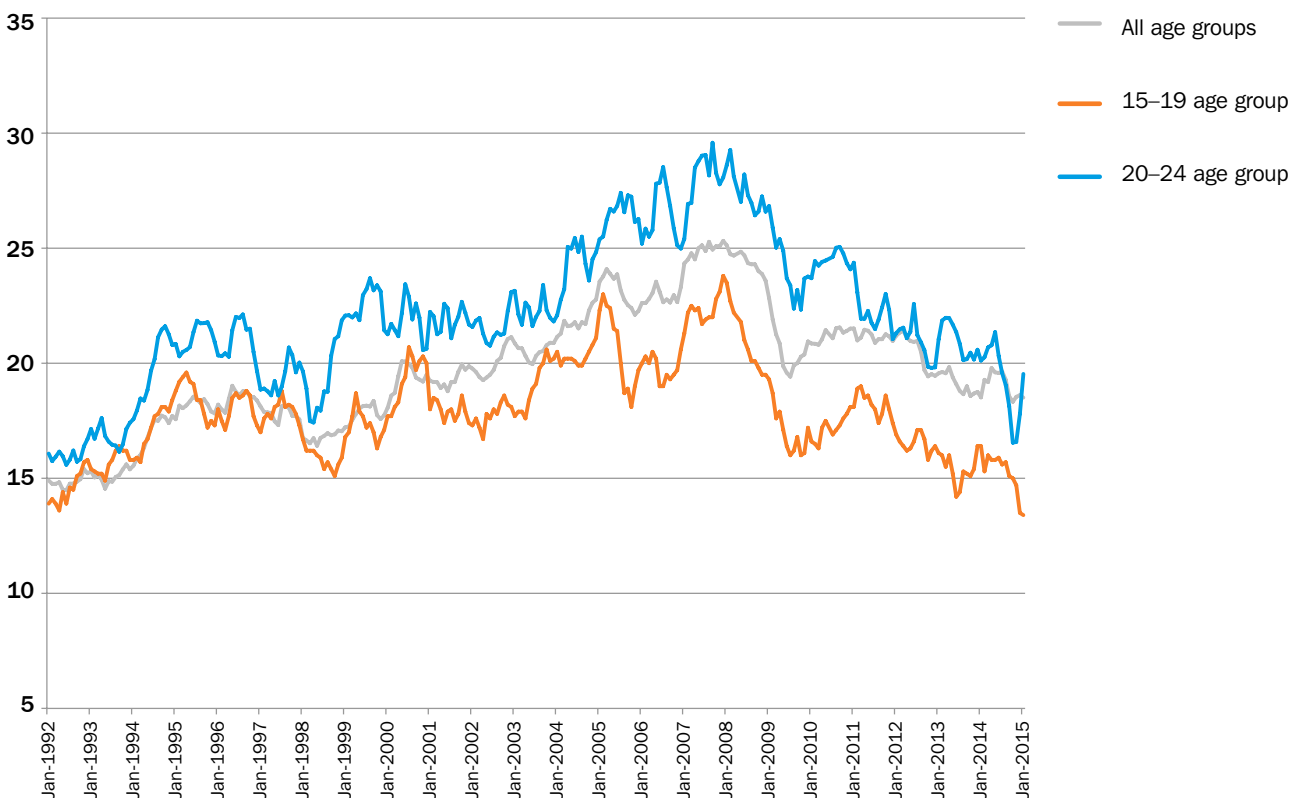
The graphs on the following pages (Figures 2 and 3) show our estimates of job-finding and job-exit probabilities for the period 1992 to 2015.

## FINDING A JOB

The chance of finding a job has been declining since the GFC. The probability of finding a job fell sharply for 15 to 19 year olds: by early 2015, less than 15 per cent of the unemployed in this group moved from unemployment into employment from one month to the next.

This level is similar to that observed for this group in the early 1990s and is well below the overall job-finding probability.

**Figure 2: Job-finding probabilities (%) in Australia 1992 to 2015**



Source: Author calculations based on data from ABS datacube GM1

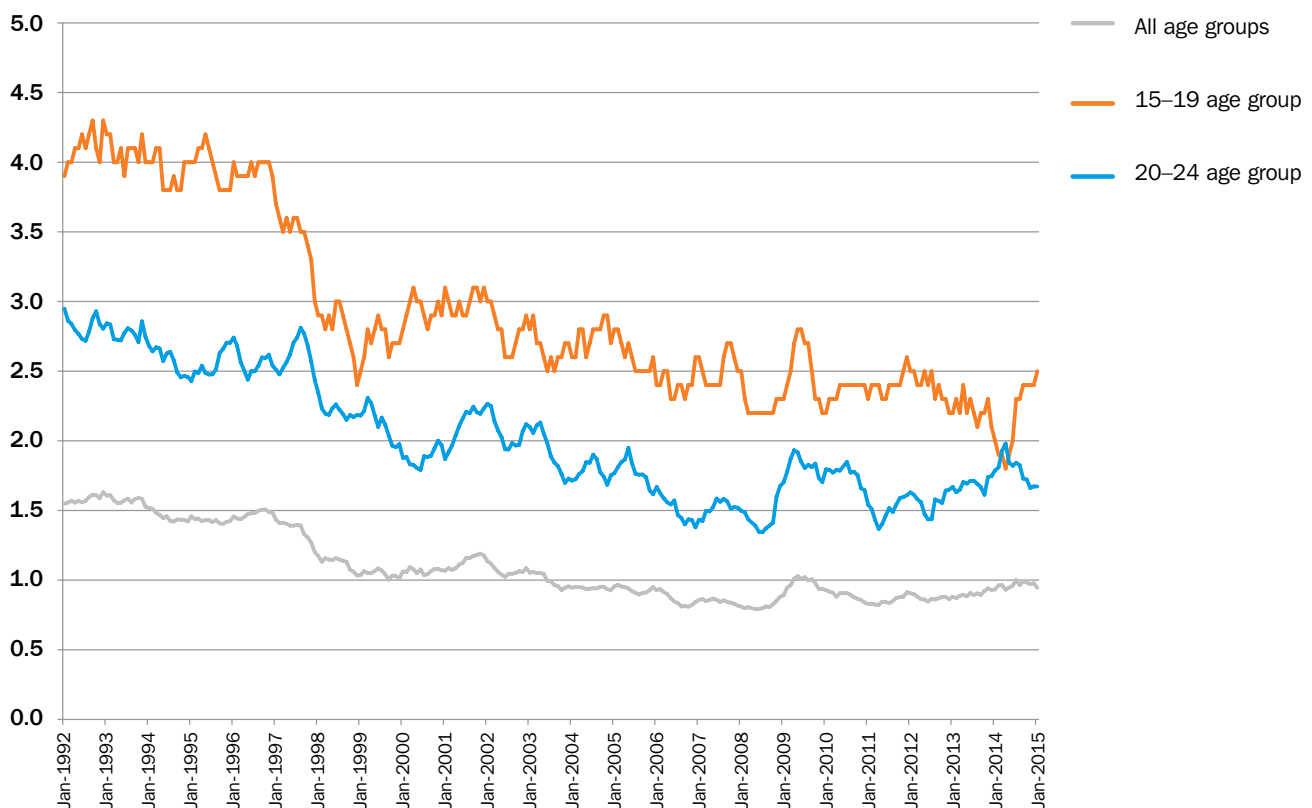
## EXITING JOBS

Our analysis shows that young people are more likely to exit jobs than the rest of the population (Figure 3). This is especially true for the 15 to 19 year olds, for whom this probability is now more than 2.5 times that of the overall population.

From the early 1990s until the GFC, the overall probability of exiting a job declined. Since then, our results suggest, the *job-exit rate* has remained at levels similar to the level just before the GFC. In contrast, since the GFC there has been a sharp decline in the *job-finding rate*, which has clearly contributed to the rise in unemployment.

This result is consistent with the evidence for previous recessions in Australia and from countries such as the United Kingdom and the United States, where the probability of finding a job is the main driver of the fluctuations in the unemployment rate.

**Figure 3: Job-exit probabilities (%) in Australia 1992 to 2015**



Source: Author calculations based on data from ABS datacube GM1

## FAULTLINES: THE CHARACTERISTICS OF UNEMPLOYED PEOPLE NOW

One possible explanation proposed in the economics literature is that recessions alter the characteristics of the pool of unemployed people, increasing the prevalence of those with a low probability of finding work – for example those with fewer educational qualifications.

So, as this hypothesis goes, having more people at high risk of experiencing long spells of unemployment would explain the decline in the flow of people moving from unemployment to employment.

However, as we explain below, our preliminary analysis shows that the proportion of unemployed Australians with less than Year 12 has fallen since 2005, while the proportion with some tertiary education has actually risen over the same period.

Table 1 presents preliminary results on the age and education profile of the unemployed for the period 2005 to 2012, using data from the Household Income and Labour Dynamics in Australia (HILDA) survey.

**Table 1: Composition of the unemployment pool (%), all age groups, 2005 to 2012**

	2005	2006	2007	2008	2009	2010	2011	2012
<b>Age</b>								
15–24	41.0	46.6	43.1	43.5	43.8	40.8	42.8	43.8
25–39	28.7	27.5	28.4	27.4	28.4	31.2	31.1	31.3
40–54	24.0	17.0	18.6	20.1	19.0	20.0	18.4	16.6
55 and over	6.3	9.0	9.9	9.0	8.8	8.0	7.7	8.4
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Education</b>								
Less than Year 12	49.6	46.2	53.3	44.9	45.9	45.0	32.1	36.1
Year 12	18.4	21.3	18.1	19.7	22.5	23.8	20.0	20.2
Certificate III or IV	16.1	16.7	14.6	15.9	16.1	14.5	20.8	18.4
Other tertiary*	15.9	15.9	14.0	19.4	15.6	16.7	27.1	25.3
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* This category includes individuals with diplomas and advanced diplomas, bachelors degrees and postgraduate qualifications.

Source: Author calculations based on HILDA data, wave 12.

Despite the recent surge in the youth unemployment rate, there has been no major change in the age composition of the unemployed. Young people aged under 25 make up more than 40 per cent of the unemployed in every year from 2005 to 2012. Those who are 55 or older account for less 10 per cent, and this share has not changed much since the GFC.

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## UNEMPLOYED BUT MORE EDUCATED

Our findings on the educational levels of unemployed people are striking.

Since the GFC, based on the HILDA data we found the proportion of the pool of unemployed people with less than Year 12 has declined. This group made up more than 44 per cent of the unemployed in every year up to 2010, then dropped sharply to 32 per cent in 2011 and 36 per cent in 2012. Meanwhile, the proportion of unemployed people with some tertiary education has increased since 2010.

These results provide some preliminary evidence to counter the hypothesis proposed by some economists that job-finding probability has been declining because of the changed characteristics of the pool of unemployed (the composition effect). This suggests that the explanation for the decline in Australia's job-finding rate is far more complicated than just deterioration in the profile of the unemployed.

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## NOTE

This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Social Services (DSS) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported here, however, are those of the authors and should not be attributed to either DSS or the Melbourne Institute.