

Totalling the hidden talent

Youth unemployment and underemployment in England and Wales

Laura Gardiner

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Local Government Association, Local Government House, Smith Square, London SW1P 3HZ

Tel: 020 7664 3000

Email: info@local.gov.uk

Website: www.local.gov.uk

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Inclusion, Third Floor, 89 Albert Embankment, London SE1 7TP

Tel: 020 7582 7221

Email: info@cesi.org.uk

Website: www.cesi.org.uk

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Summary

This paper defines a broader measure of 'slack' in the youth labour market than that given by the headline unemployment figures. We look at out-of-work young people who want a job in combination with young people who are 'underemployed' in various ways, in order to quantify the 'total hidden talent': all those young people in England and Wales who aren't currently working to their potential.

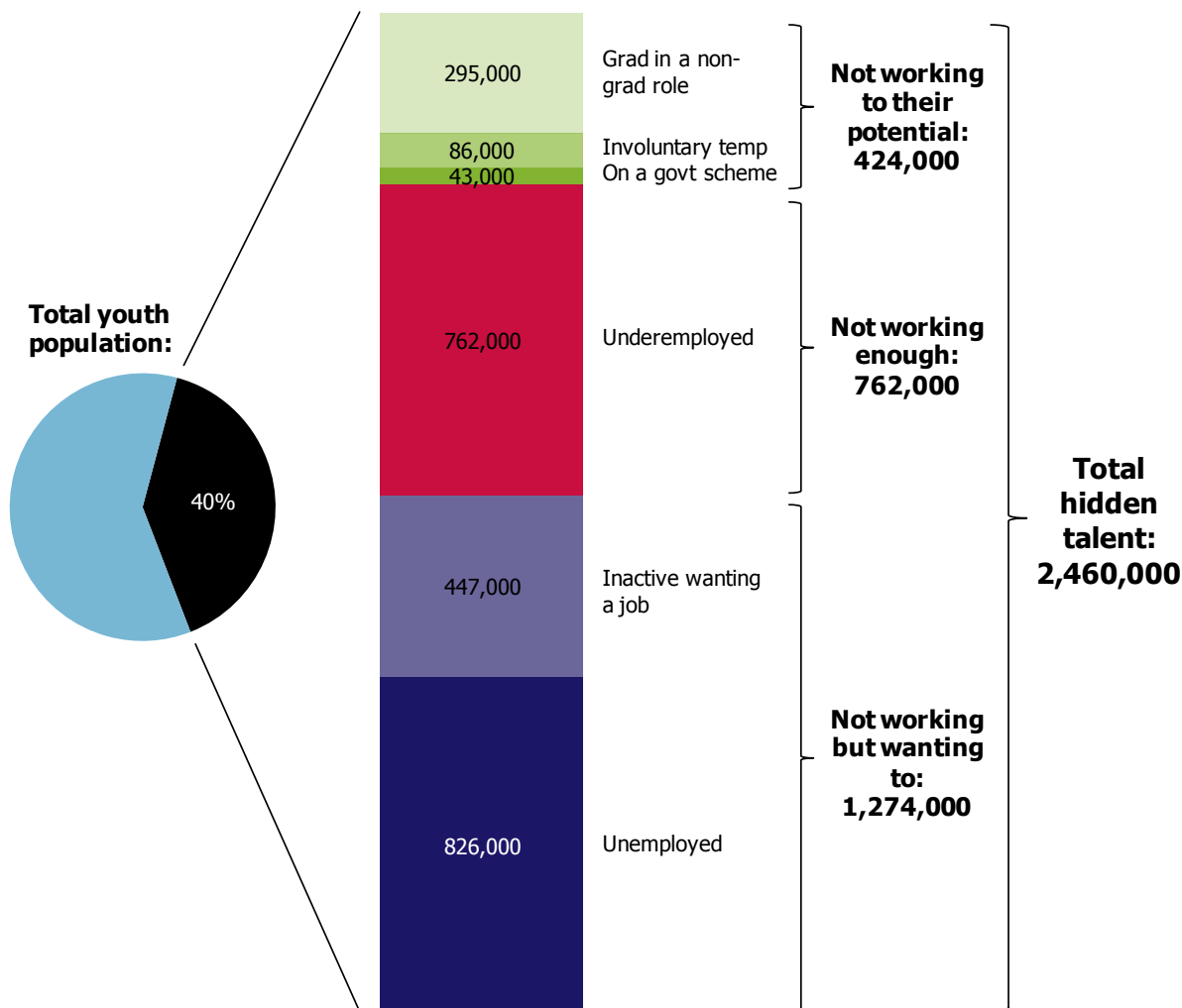
Our ***definition of the total hidden talent*** includes:

- 1 **Unemployed young people**
- 2 **Economically inactive young people who want a job**
- 3 **'Underemployed' young people** who want more hours than they currently work
- 4 **Young people on 'government employment and training schemes'** who are usually doing small amounts of job search, work preparation or work experience
- 5 **Young people who are working in temporary jobs but want permanent work**
- 6 **Young people who are 'over-qualified' for the work they are doing** because they are graduates working in non-graduate roles.

In total, **2.46 million young people in England and Wales** are part of the total hidden talent, **two in every five young people**.

The figure below provides a summary of the composition of the total youth hidden talent.

Figure S1: Summary of the total hidden talent, young people (16-24 year olds), England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

Comparative analysis of the total hidden talent shows that:

- The number of young people in this group has **grown by nearly three-quarters of a million since 2005**, which is partly but not wholly explained by growth in the overall youth population.
- **Adults aged 25 and over are much less likely to be part of the total hidden talent than young people** – 28% of adults are compared to 40% of young people.
- **Urban areas outside of London – including Sheffield, Leeds, Newcastle and Manchester city regions – face the highest total youth hidden talent levels.** These areas have also seen the greatest increases, suggesting that **the total youth hidden talent has become more deeply entrenched within areas during the recession and the period since.**

This paper also explores measures of *excess capacity* in the labour market in terms of the amount of time that young people want and are able to work, as opposed to binary measures of their appetite for work at all. We find that:

- Unemployed and underemployed young people **want over two billion more hours of work annually than they are currently working.**
- Using an unemployment index or 'excess capacity rate' recently developed by David Bell and David Blanchflower, **nearly a third (31%) of youth capacity in the workforce goes unused**, compared to just 8% of adult capacity. Youth excess capacity has been growing more quickly than adult excess capacity.
- **Mainly urban areas outside London also fare worst on excess capacity – specifically Birmingham and Newcastle city regions as well as the more rural North East.** Greater Manchester has seen the largest deterioration in excess capacity rates since 2005.

Finally, this paper explores the relationship between hidden talent levels, national economic growth and population levels, in order to assess the *prospects for the size of the total youth hidden talent in coming years*. The historical relationship between the three is established via statistical modelling and applied to forecasts for modest economic growth and a marginally shrinking youth population.

Our experimental estimates suggest that **the rise in the total youth hidden talent may start to reverse in coming years**; we predict a fall from 2.46 million to 2.12 million by 2018. However, **even on the most optimistic economic forecast we predict that the total youth hidden talent will be higher in 2018 than it was in 2005**, and our central forecast suggests that the total hidden talent will still make up more than a third of the youth population in 2018.

The findings in this paper reveal the scale of youth unemployment and underemployment, and the persistent growth in the group of young people not employed to their potential since before the recession. They point to large local variations in the nature of the problems young people face in the labour market. And they suggest that this situation is unlikely to resolve itself in coming years.

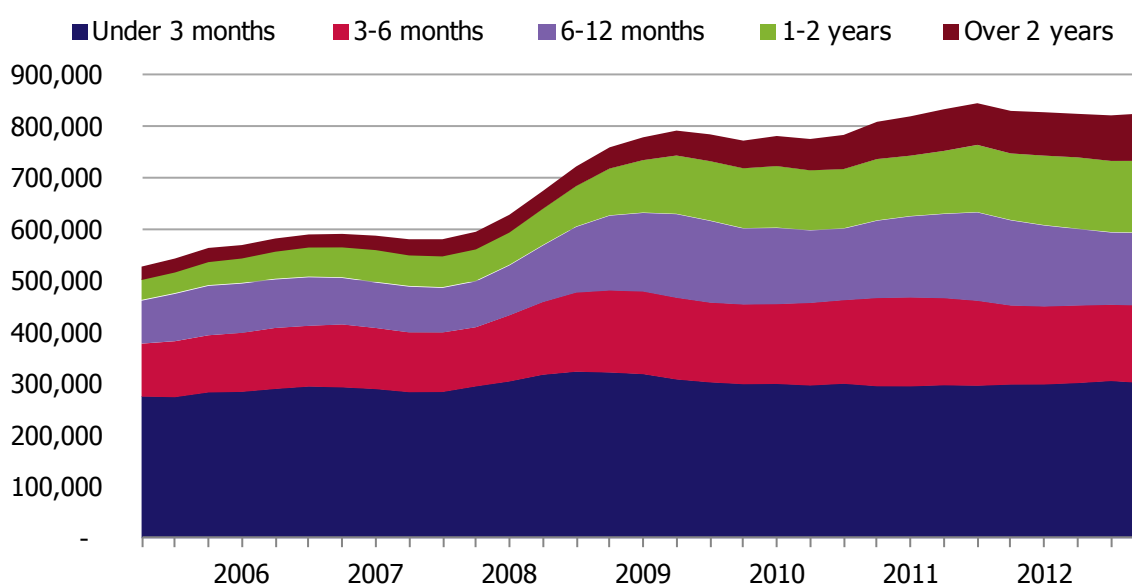
Therefore, a focus on both the *breadth* and *depth* of the youth employment challenge is required from policymakers and those delivering services at the national and local levels. This entails policy solutions that meet the needs of the groups making up the total youth hidden talent. We recommend that these include targeted measures to tackle long-term youth unemployment; incentivising employers to offer apprenticeships; joining up a fragmented provision landscape; resolving skills mismatches; and supporting career progression for young people.

1 Introduction

The headlines are well known: youth unemployment in the UK has been rising since the early 2000s; it grew by over a third during the 2008/09 recession; hit one million in 2011 and has remained stubbornly high since, with only a small contraction in the number of youth unemployed during the recent upturn in the labour market. The youth unemployment rate in England and Wales (where this analysis is focused) now stands at 20.8%, compared to just 5.5% for 25-64 year olds.¹

As in the UK as a whole, the growth in youth unemployment in England and Wales has been driven by people remaining unemployed for longer (shown on figure 1.1). Young people not in employment or education are, for the first time ever, most likely to have never had any paid work at all.² And as previous analysis by *Inclusion* for the Local Government Association (LGA) has shown, these young people are facing an increasingly fragmented landscape of employment and skills provision that is actually supporting fewer people than it was three years previously.³

Figure 1.1: Youth unemployment by duration, England and Wales



Source: Quarterly Labour Force Survey, Office for National Statistics

¹ All statistics in this report are sourced from the Quarterly Labour Force Survey, Office for National Statistics, unless otherwise stated. Latest data always refers to the most recent four quarters of available data, covering October 2012–September 2013

² Sissons, P. and Jones, K. (2012) *Lost in transition?: The changing labour market and young people not in employment, education or training*, The Work Foundation

³ See: Gardiner, L. and Wilson, T. (2012) *Hidden Talents: Analysis of fragmentation of services to young people*, Centre for Economic & Social Inclusion; and Centre for Economic & Social Inclusion (2013) *Hidden talents: National programmes for young people*

This analysis seeks to take a deeper look at those young people facing challenges as they leave education and begin their careers, by defining and exploring a broader measure of 'slack' in the youth labour market than that given by the headline unemployment figures.⁴ We look at out-of-work young people who want a job in combination with young people who are 'underemployed' in various ways, in order to quantify the 'total hidden talent': all those young people in England and Wales who aren't currently working to their potential. This analysis also explores measures of excess capacity in the youth labour market in terms of the amount of time that young people want and are able to work, in addition to binary measures of their appetite for work at all.⁵

By casting further light on the nature of the youth unemployment and underemployment challenge, this paper is intended to inform policymakers and those delivering services for young people at the national and local levels. It is structured as follows:

- **Chapter two** sets out our definition of the total hidden talent and total excess capacity, describes trends on these measures in recent years, and compares to the adult population.
- **Chapter three** explores variations in the total hidden talent across English and Welsh sub-regions.
- **Chapter four** assesses how the total hidden talent might change in coming years by modelling on the basis of growth and population forecasts.

⁴ In looking at various measures of labour market slack for young people, this analysis builds on recent focus on slack in the labour market as a whole. For example, the Bank of England's latest inflation report has brought underemployment and spare capacity to the fore in judgements on the UK's overall economic prospects: Bank of England (2014) *Inflation Report, February 2014*

⁵ This part of the analysis builds on David Bell and David Blanchflower's recent work on underemployment in the UK and makes use of the new underemployment index that they define: Bell, D. and Blanchflower, D. (2013) 'Underemployment in the UK Revisited', *National Institute Economic Review* No.224

2 What is the total hidden talent?

For a broader measure of slack in the youth labour market we have drawn on established analysis of unemployment, worklessness, and underemployment – attempting to identify these patterns specifically for 16-24 year olds in England and Wales, as feasible within available survey data. This analysis uses the Labour Force Survey, which is the largest national household survey in the UK and the one that is used to generate official employment statistics.

In consultation with the LGA, we have developed the following definition of the 'total hidden talent':

- 1 **Unemployed young people**, who are both seeking work and available to start.
- 2 **Economically inactive young people who want a job**, but aren't currently looking for various reasons. This (combined with the unemployed) mirrors the 'U5' definition in the US Bureau of Labor Statistics' measures of labour underutilisation.⁶ It also builds on recent work done by the Trades Union Congress applying US measures to the UK labour market to describe 'total' unemployment.⁷
- 3 **'Underemployed' young people**, who want more hours than they currently work. This builds on the Office for National Statistics' (ONS's) analysis of UK underemployment,⁸ and aligns with the 'U6' definition of labour underutilisation in America. This definition includes a larger group than just those in part-time jobs who want full-time work, which is often used as a measure of underemployment. We have opted for the less stringent definition because we are seeking to create a broad typology of every young person not employed to their potential, and because this aligns with the definition of underemployment used in the excess capacity measures described later in this chapter.
- 4 **Young people on 'government employment and training schemes'**. These people are counted as 'in employment' in national statistics, but are most likely to

⁶ United States Department of Labor, Bureau of Labor Statistics (2014) *Table A-15. Alternative measures of labor underutilization*

⁷ Trades Union Congress (2013) *'Total' unemployment in the UK is nearly five million – almost double the official figure* (press release: 5 September 2013)

⁸ Office for National Statistics (2012) *Underemployed workers in the UK*

be doing small amounts of work experience, work preparation, job search or training (while receiving out-of-work benefits) arranged by organisations like Jobcentre Plus and Work Programme providers. We have previously questioned the inclusion of this group in the employment figures at all,⁹ and at the very least we consider that they warrant inclusion in a measure of young people not employed to their potential.

- 5 **Young people who are working in temporary jobs but want permanent work.** Evidence suggests that involuntary temporary work entails insecurity and vulnerability in the workplace, is concentrated in low-level occupations, represents lower levels of labour productivity, and has a detrimental impact on the worker including lower levels of job satisfaction.¹⁰ For these reasons, we think this group also warrants inclusion as a category within our total hidden talent measure.
- 6 **Young people who are 'over-qualified' for the work they are doing.** There are a range of ways in which people could be considered over-qualified for their job role, both in terms of objective qualifications and subjective skill levels. The most readily available definition for analysis, following ONS and European standards,¹¹ is people with graduate-level qualifications who are working in non-graduate jobs.¹² This definition will not capture the totality of over-qualified young people. However, we think that it is a good proxy indicator for over-qualification, and in particular for looking at relative levels of over-qualification between age groups, across geographies and over time. Thus, graduates in non-graduate roles is the final group of young people who can be considered not employed to their potential.

These six sub-groups, taken together, comprise our definition of the total hidden talent. Because it is possible for a young person to be in more than one of these groups at the same time, we have applied a hierarchy within the measure so that, when looking at the total hidden talent as a whole, an individual will be counted only in the first sub-group that they appear in. For example, if a young person is underemployed (sub-group three), they cannot also be counted as an involuntary temporary worker (sub-group five) or a graduate in a non-graduate role (sub-group six) when groups are being considered as part of a cumulative total.

⁹ Malik, S. and Ball, J. (2013) *Statistics cast doubt on coalition's '500,000 new jobs' claim*, The Guardian: 15 January 2013

¹⁰ Cam, S. (2012) *Working Paper 151: Involuntary Temporary Workers: Evidence from the UK Labour Force Survey*, Cardiff School of Social Sciences Working Paper Series

¹¹ Office for National Statistics (2013) *Graduates in the UK Labour Market*

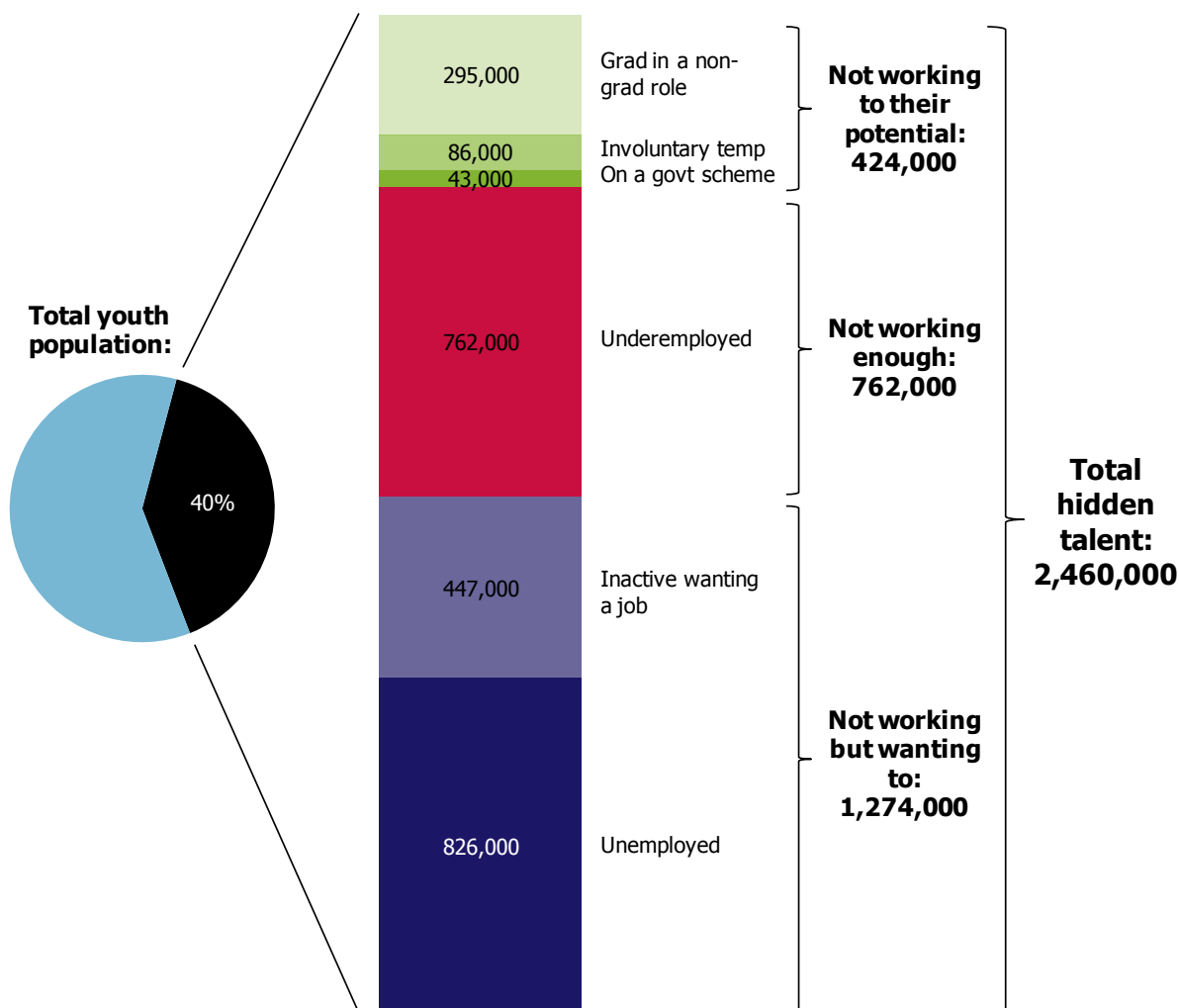
¹² Graduate and non-graduate jobs are identified within the SOC(HE) occupational classification. See: Elias, P. and Purcell, K. (2013) *Classifying graduate occupations for the knowledge society*, Futuretrack Working Paper 5

Finally, following the headline unemployment measure, all of these groups include students. This means that some members of the total hidden talent will be in part- or full-time education or training, which may limit their availability for work in the short term. We have taken this approach because our focus is on measuring underutilisation of young people who are engaging with the labour market, which can apply whether that young person is in learning or outside it. Therefore, particularly with the raising of the participation age in England, students wanting work (or more work, or more highly-skilled work) alongside their studies are a legitimate part of any discussion on how we more effectively engage and support young people to reach their potential in employment.

2.1 How big is the total hidden talent?

The total hidden talent as a whole is currently **2.46 million young people in England and Wales – 40% of the youth population**. Figure 2.1 (on which young people are only counted in the first (lowest) sub-group they appear in) shows that this figure can be broken down into three main groups: those not working but wanting to (sub-groups one and two); those not working enough (sub-group three); and those not working to their potential (sub-groups four to six).

Figure 2.1: Summary of the total hidden talent, young people (16-24 year olds), England and Wales, Oct 2012–Sep 2013

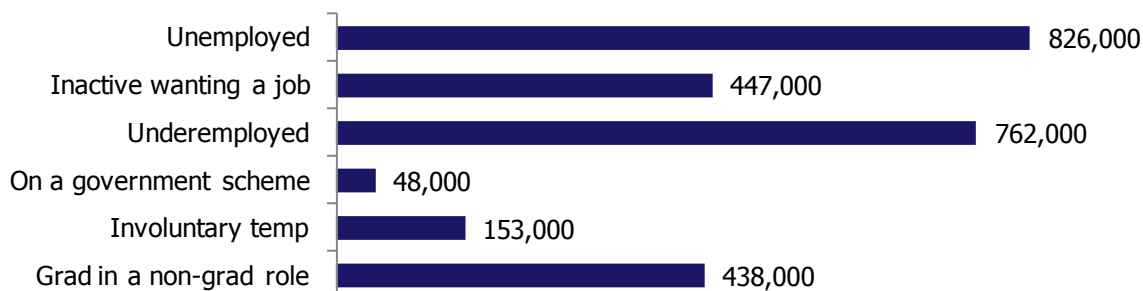


Source: Quarterly Labour Force Survey; Office for National Statistics

This broad categorisation into three groups is useful for distinguishing between sub-groups and for looking at trends within smaller geographical areas – which we return to in chapter three.

As noted, the above chart only counts young people once, in the first group in which they appear. Looking at each of the sub-groups comprising the total hidden talent separately (meaning that individuals can appear in multiple sub-groups) we find similar trends to the above analysis. Young people are most likely to be unemployed or underemployed – with over three-quarters of a million in each of these groupings. In addition, there are close to half a million young people who are economically inactive but want a job, and close to half a million who are graduates employed in non-graduate roles. This is shown on figure 2.2 below.

Figure 2.2: Sub-groups comprising the total hidden talent, young people (16-24 year olds), England and Wales, Oct 2012–Sep 2013



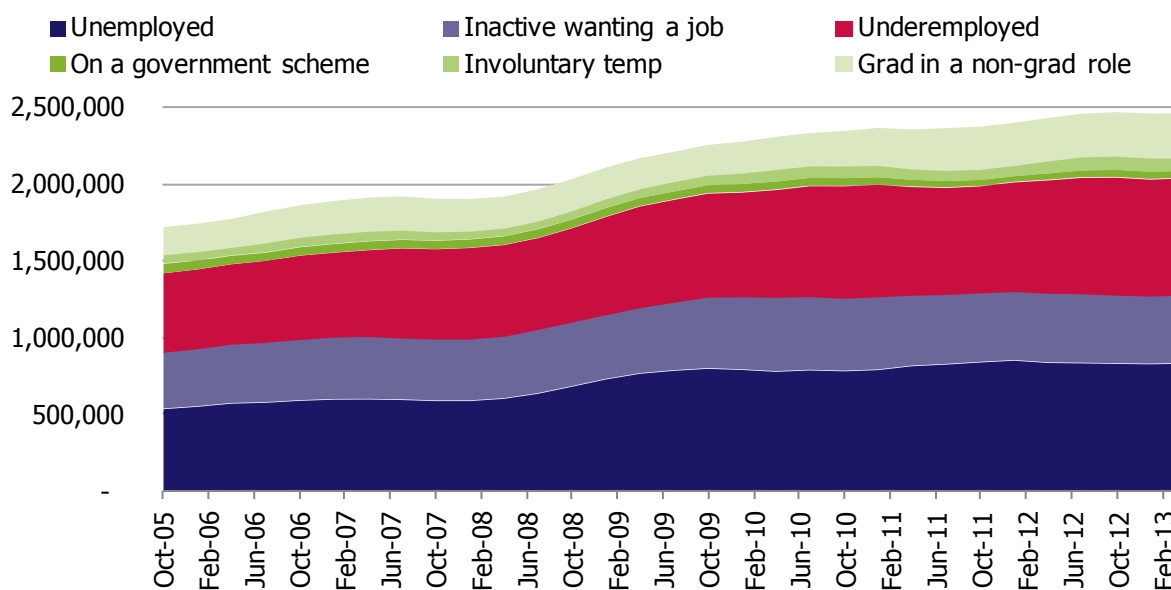
Source: Quarterly Labour Force Survey; Office for National Statistics. Individuals can appear in more than one category on this chart, meaning that the total hidden talent is not equal to the sum of the numbers on this chart

Comparing figures 2.1 and 2.2, it is interesting, but not surprising, to note that a considerable number of young people appear in more than one of the total hidden talent sub-groups. One third of graduates working in non-graduate roles are also involuntary temporary workers, on a government scheme, and / or underemployed; and more than four in ten involuntary temporary workers are on a government scheme and / or underemployed. In part, this will reflect the fact that unfavourable and insecure working conditions are likely to be concentrated in a relatively small number of lower-level, non-graduate occupations.

Figure 2.3 shows the changing composition of the total hidden talent since 2005 – which has grown steadily throughout but with a marked increase during the recession. There are now **738,000 (43%) more young people in the total hidden talent than there were in 2005**, with numbers increasing across sub-groups. Part of the growth in the total hidden talent (particularly pre-recession) will have been driven by population changes, with the youth population having grown by 427,000 over the period in question.¹³

¹³ Source: Mid-year population estimates, Office for National Statistics. Figure A5 in annex one accounts for these population changes by showing the youth total hidden talent as a proportion of the total population since 2005

Figure 2.3: Total hidden talent, young people (16-24 year olds), England and Wales



Source: Quarterly Labour Force Survey; Office for National Statistics

As well as this overall increase, there will be specific trends within the sub-groups that make up the total youth hidden talent, such as the extent of underemployment in terms of the number of additional hours individuals in that sub-group are seeking (which we explore later in this chapter). In particular and as highlighted in the introduction to this paper, the recessionary growth in unemployment was driven by young people remaining unemployed for longer durations. This serves as a reminder that the portion of the total hidden talent that is out of work has moved relatively further away from work in recent years. This is a cause for concern because long-term unemployment, particularly when you're young, affects confidence, motivation, and career-long employability and earnings prospects,¹⁴ and causes social exclusion and all the problems that go with it.¹⁵

2.2 How do young people compare to adults?

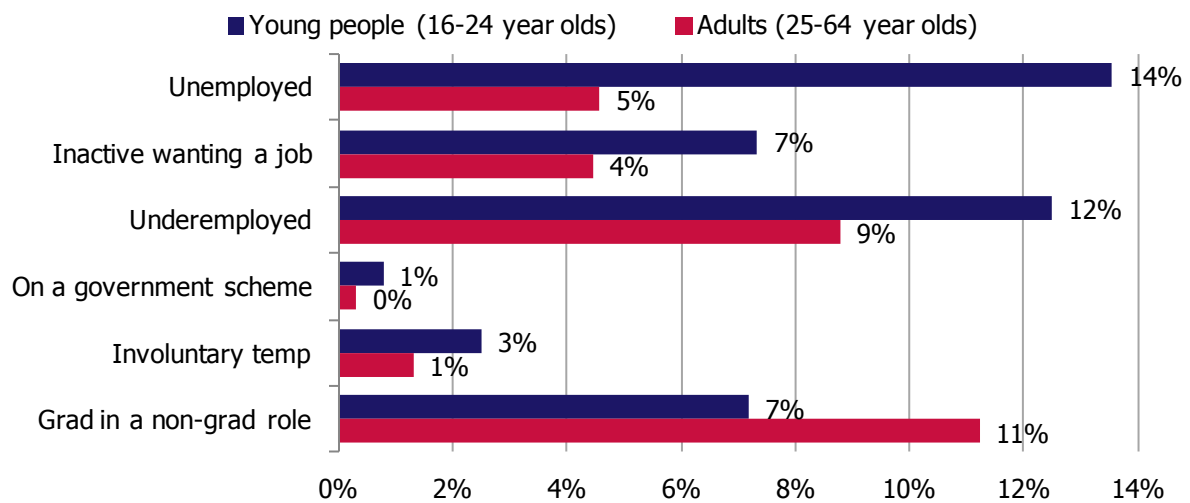
Being part of the total hidden talent is much less likely if you are older.

Overall, 28% of adults aged between 25 and 64 (7.93 million people) are part of the total hidden talent, compared to 40% of young people. Young people are more likely than adults to be in any of the groups that make up the total hidden talent, with the exception of graduates working in non-graduate roles, as shown on figure 2.4.

¹⁴ Gregg, P. and Tominey, E. (2004) *The Wage Scar from Youth Unemployment*, University of Bristol CMPO Working Paper Series No. 04/097

¹⁵ Centre for Economic and Social Inclusion (2012) *Long-term unemployment in 2012*

Figure 2.4: Sub-groups comprising the total hidden talent as a proportion of the population, young people compared to adults, England and Wales, Oct 2012–Sep 2013

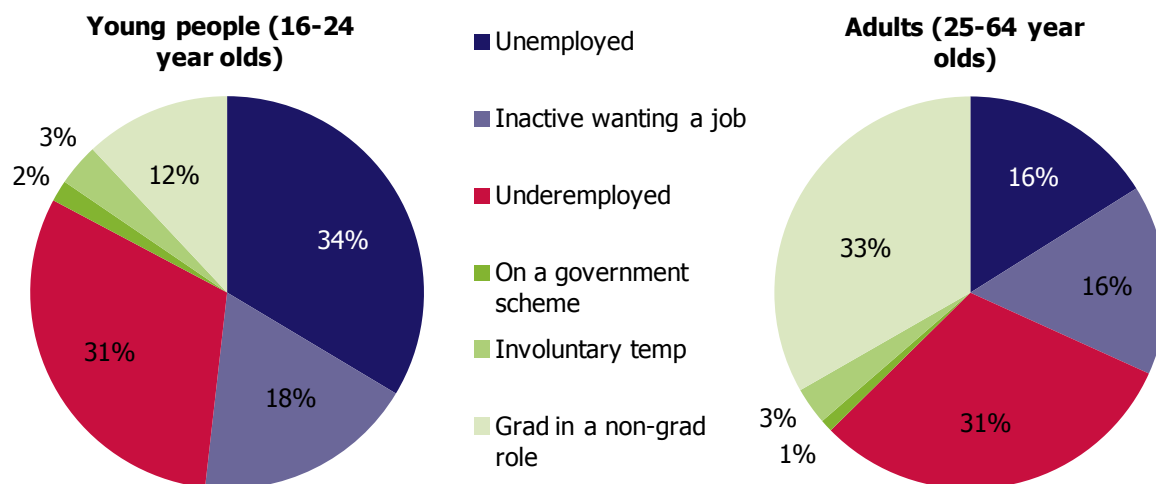


Source: Quarterly Labour Force Survey; Office for National Statistics. Individuals can appear in more than one category on this chart, meaning that the total hidden talent percentage is not equal to the sum of the percentages on this chart

Adults are more likely to be graduates working in non-graduate roles simply because many young people haven't been in education long enough to gain these qualifications. Looking instead at just *graduates* (rather than everyone in the age group), 43% of young graduates work in non-graduate roles compared to 28% of adult graduates.

It follows from figure 2.4 that the sub-groups classified as *not working to their potential* are a much greater share of the adult total hidden talent compared to the youth total hidden talent, as shown on figure 2.5. By contrast, the out-of-work sub-groups are a larger share of the total hidden talent for young people as compared to adults. In other words, **the adult total hidden talent is more likely to be in work than the youth total hidden talent.**

Figure 2.5: Composition of the total hidden talent, young people compared to adults, England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

Since 2005, the adult total hidden talent has grown at the same rate as the youth total hidden talent. See annex one for further details and additional comparison between adults and young people.

2.3 How much excess capacity is there?

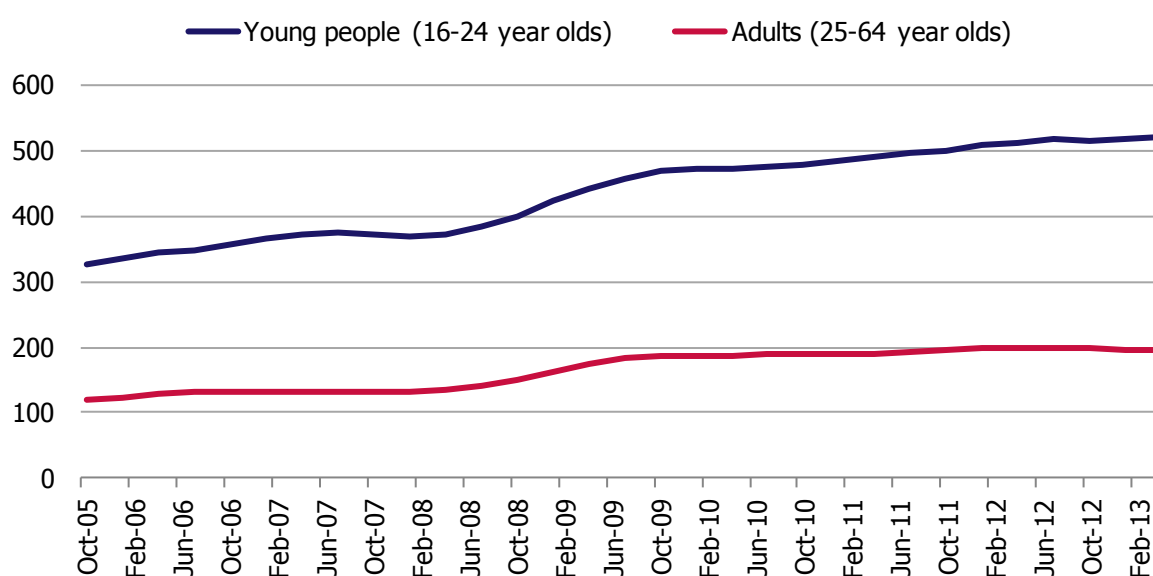
Our headline total hidden talent measure looks at *numbers of people* not working but wanting to, not working enough, or not working to their potential. An alternative picture of slack in the labour market can be gained from *capacity-* or *hours-*based measures, which capture not only whether people want (more) work or not, but how much (more) work they want. Such capacity-based measures arguably give a more nuanced picture of the scale of the challenge. On the other hand, these measures only count hours for those individuals who are unemployed or underemployed (sub-groups one and three of the total hidden talent measure) and therefore apply to just a subset of the broad range of individuals identified in the previous section.¹⁶

¹⁶ In this section we look at capacity-based measures only for the unemployed and underemployed, and not for those economically inactive wanting a job, in order to align with recent work done on hours-based measures of underemployment by David Bell and David Blanchflower. Bell and Blanchflower's index, like the headline unemployment rate, considers only those individuals who are economically active and part of the labour force. See: Bell, D. and Blanchflower, D. (2013) 'Underemployment in the UK Revisited', *National Institute Economic Review* No.224

One way of thinking about excess capacity in the youth labour market is by looking at the hours that the unemployed could work,¹⁷ combined with the extra hours that the underemployed want to work – a measure we call the ‘hidden hours’.

We calculate that **unemployed and underemployed young people want over two billion more hours of work annually than they are currently working.** This equates to 323 hidden hours per young person per year, or 521 hidden hours per economically active young person. Figure 2.6 shows that, like the total hidden talent, hidden hours per member of the youth workforce have grown since 2005, and substantially during the recession. Furthermore, the gap between youth and adult hidden hours has grown – there are now 196 hidden hours per adult worker per year, just over a third of the figure for young people.

Figure 2.6: Hidden hours per member of the workforce per year, young people compared to adults, England and Wales



Source: Quarterly Labour Force Survey; Office for National Statistics

An alternative take on excess labour capacity is provided by a new underemployment index – or ‘excess capacity rate’ – recently developed by David Bell and David Blanchflower as an alternative to the unemployment rate for measuring labour market slack. The excess capacity rate is the number of (additional) hours un- and under-employed people want to work (i.e. the hidden hours defined above), less the excess hours that ‘over-employed’ workers want to reduce their working time by, as a proportion of all the capacity available in the

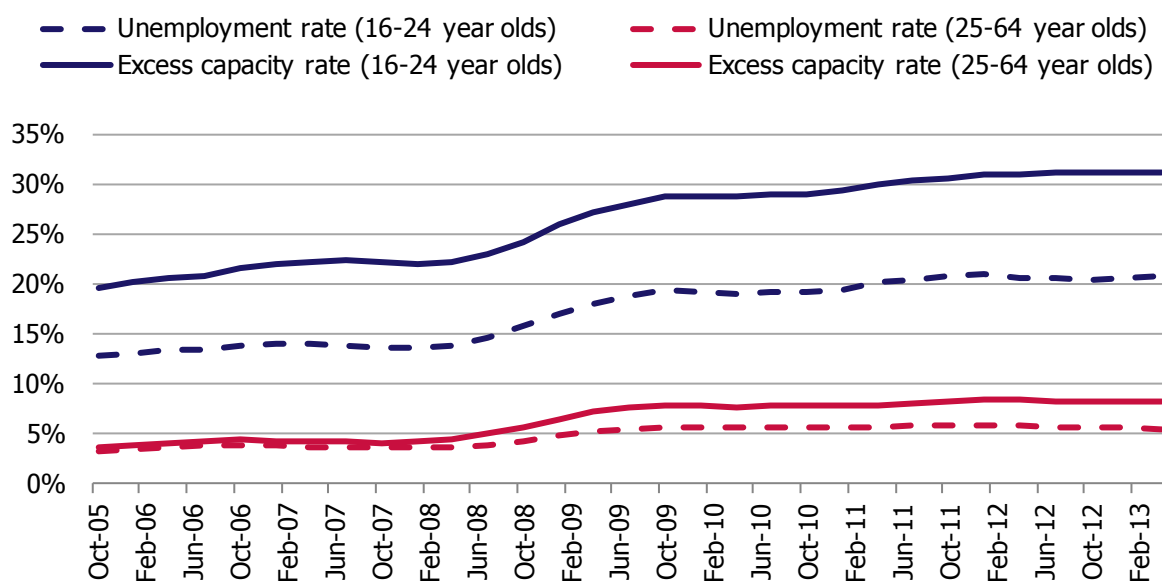
¹⁷ Again building on David Bell and David Blanchflower’s work, we assume that the unemployed want to work the same number of hours as the employed, on average

workforce.¹⁸ In other words, the excess capacity rate measures the ratio of net unemployed hours to total available hours.

This measure highlights the challenges young people are facing in the labour market. Figure 2.7 shows that, while the excess capacity rate for adults only became decoupled from the adult unemployment rate during the recession, the youth excess capacity rate has been substantially higher than the youth unemployment rate for years. These patterns may partly be explained by high numbers of students among the youth unemployed. This is because the excess capacity measure rests on the assumption that unemployed people want to work the same hours as the employed on average, and it is likely that unemployed students will actually be looking for fewer hours than the average young worker is working.

Even if it may be acceptable or expected for youth excess capacity rates to rest naturally higher than youth unemployment rates, it is noteworthy from figure 2.7 that the gap between the two has been growing. On the latest data, **nearly a third (31%) of youth capacity in the workforce goes unused.**

Figure 2.7: Unemployment and excess capacity rates, young people compared to adults, England and Wales



Source: Quarterly Labour Force Survey; Office for National Statistics

The fact that youth excess capacity has been moving away from youth unemployment is interesting, as a high excess capacity rate compared to the unemployment rate implies that reductions in unemployment will be more difficult to

¹⁸ For the precise calculation see: Bell, D. and Blanchflower, D. (2013) 'Underemployment in the UK Revisited', *National Institute Economic Review* No.224

achieve. The theory goes that when demand picks up, employers may offer existing workers the longer hours they are seeking rather than bear the recruitment costs of hiring new staff. But this is not what we have been seeing in the most recent UK labour market statistics: while unemployment has started to fall, underemployment has continued to rise.

The reasons for this aren't completely clear. One possibility is that technological advances have reduced the marginal costs of recruitment, particularly at a time when competition for vacancies is strong. Another factor will be the structure of Employer National Insurance contributions, which don't kick in until an employee is earning around £150 per week, meaning that it is relatively cheaper for employers to hire an additional low-wage, part-time worker than to increase the hours of an existing one.

The Autumn Statement announcement that from April 2015 Employer National Insurance contributions for under-21 year olds will be abolished entirely¹⁹ should make young people more attractive to employers, but may also shift the dial in favour of increasing existing young employees' hours rather than hiring new young people. It will be important to monitor the extent to which this policy change impacts on youth hours as opposed to youth employment as it rolls out.

Finally, whatever the relative impact of economic recovery and recent policy changes on youth hours and youth jobs, it is worth remembering that it is those young people who have been out of work for longer durations that are least likely to benefit. This group grew during the recession, and it is this group that suffer the most damaging and longest-term consequences of their poor labour market experiences while young, as highlighted earlier in this chapter. Focusing policy and practice on the *breath* of the youth unemployment and underemployment challenge shouldn't draw focus away from the *depth* of the challenge for those at the very bottom of the pile.

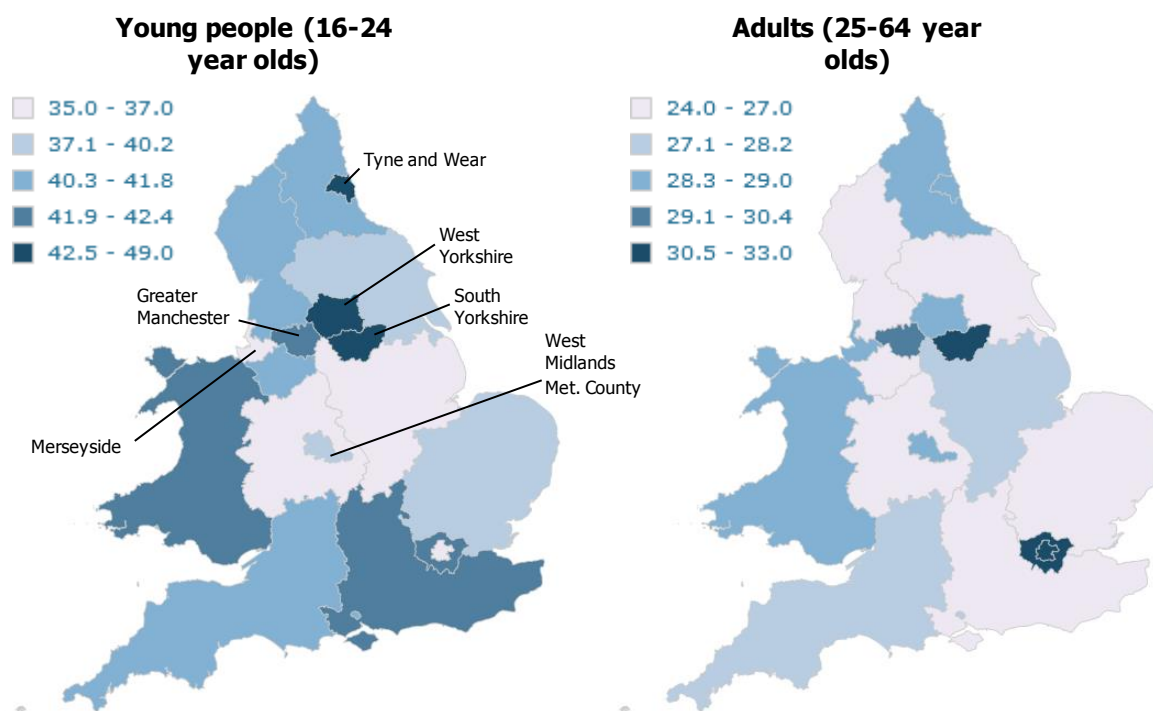
¹⁹ Unless the individual earns more than £42,000

3 Where is the total hidden talent?

This chapter explores, at the sub-regional level, the indicators of hidden talent and excess capacity described in the previous chapter. The lowest geographical level available for analysis in the publicly-available Labour Force Survey datasets is the 17 sub-regions of England and Wales. These include the urban areas of Tyne and Wear (Newcastle city region), South Yorkshire (Sheffield city region), West Yorkshire (Leeds city region), Greater Manchester, Merseyside, and West Midlands Metropolitan County (Birmingham city region); as well as comparatively rural areas such as the South West and the rest of the North West (covering Cheshire and Cumbria).

Figure 3.1 shows total hidden talent rates for adults compared to young people across these sub-regions.

Figure 3.1: Total hidden talent as a proportion of the population (%), young people compared to adults, England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

This shows that total hidden talent levels for young people are highest in three former-industrial northern city regions: South Yorkshire, West Yorkshire and Tyne

and Wear. Youth total hidden talent levels are lowest in inner London, the East Midlands and the rural West Midlands

The picture is somewhat different for adults, for whom the highest total hidden talent levels are found in inner and outer London as well as in South Yorkshire. This is because the adult total hidden talent is more heavily composed of graduates working in non-graduate roles, who are particularly prevalent in London given high educational participation and the polarisation of skills in the labour market.

Figure 3.2 shows the composition of the youth total hidden talent by main group. It shows that those *not working to their potential* make up a comparatively larger share of the youth total hidden talent in inner London, which, as with older people, is due to high rates of graduates working in non-graduate roles in the capital. West Midlands Metropolitan County (Birmingham city region) has the greatest share of the youth total hidden talent that is not working at all, while comparatively rural areas like the South West, the rest of the West Midlands and the rest of Yorkshire & Humberside have the highest incidence of underemployment within their total hidden talent.

Figure 3.2: Groups comprising the total hidden talent, young people (16-24 year olds), England and Wales, Oct 2012–Sep 2013

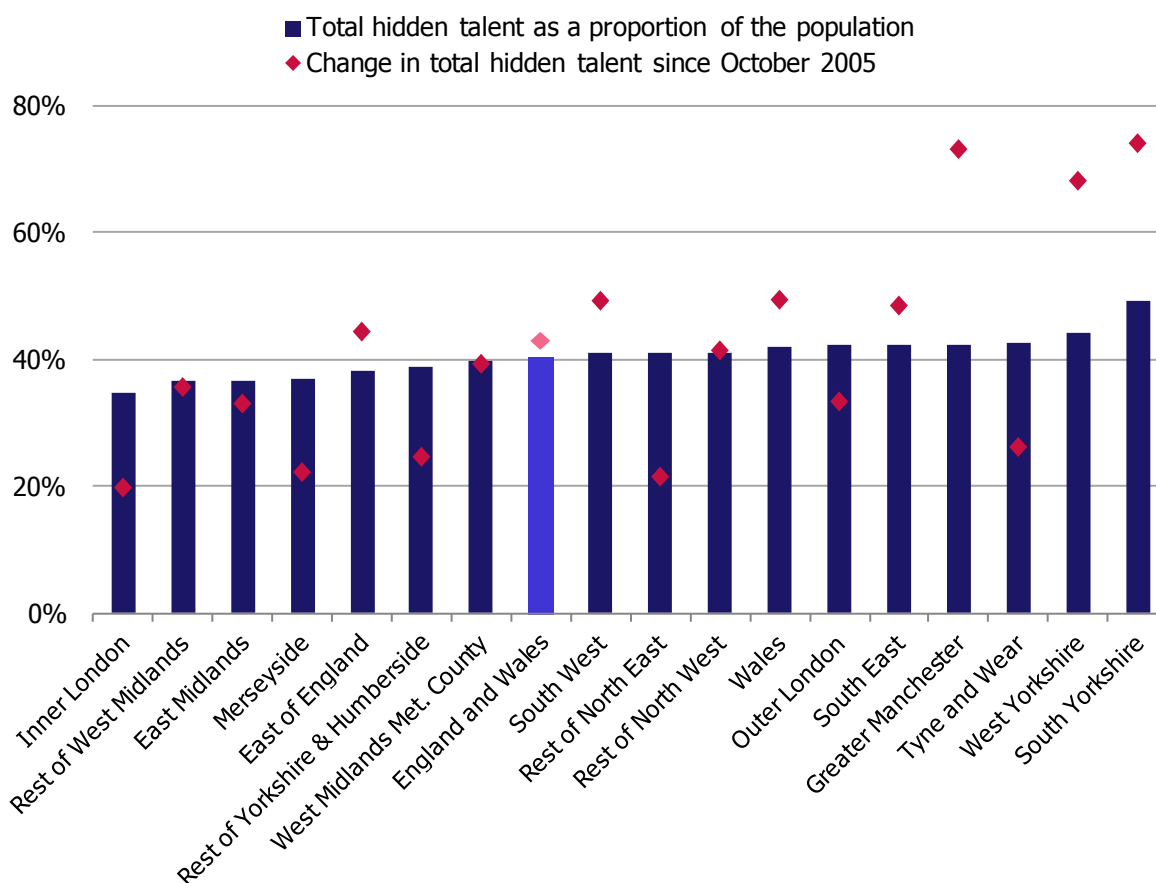


Source: Quarterly Labour Force Survey; Office for National Statistics

Areas with the highest total youth hidden talent rates have also seen the greatest increases in the size of the total hidden talent in recent years, as shown on figure

3.3. In particular South Yorkshire, which has the highest youth total hidden talent level, has also seen the greatest increase (of 74%) in the total hidden talent since 2005, with similar increases in Greater Manchester. This suggests that **the hidden talent has become more deeply entrenched within areas during the recession and the period since.**

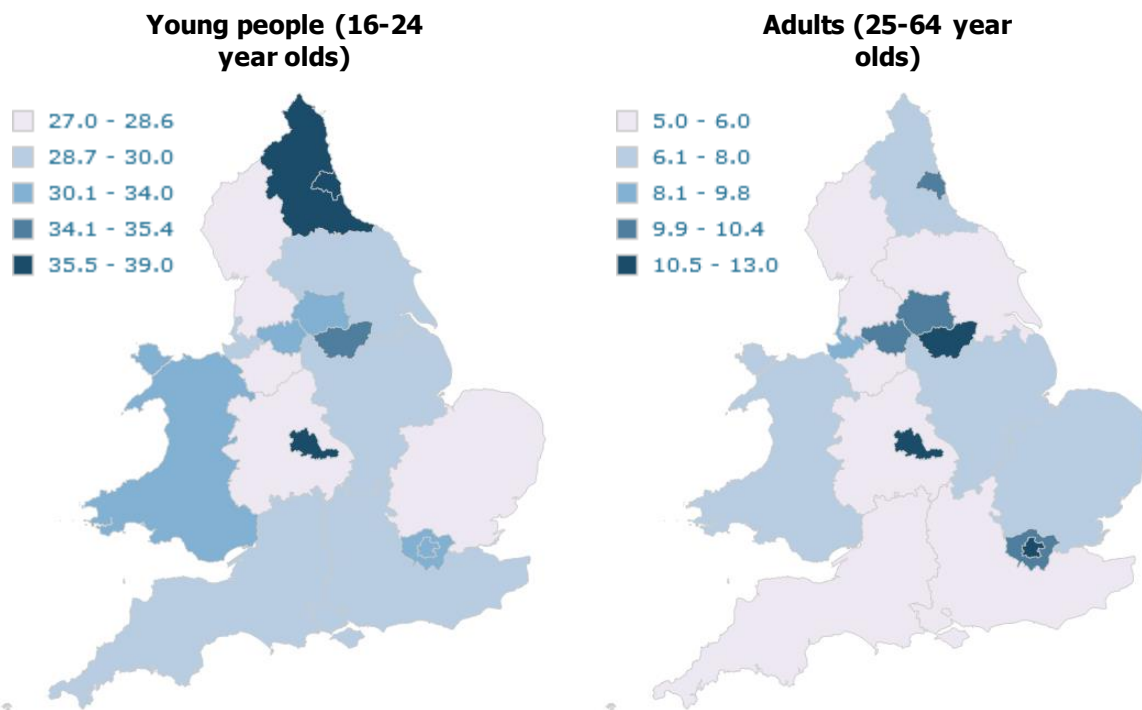
Figure 3.3: Total hidden talent rates and change in total hidden talent since 2005, young people (16-24 year olds), England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

In terms of excess youth capacity, South Yorkshire continues to stand out, with the highest number of hidden hours per young person per year (see table A2 in annex two). However, using the excess capacity rate, it is West Midlands Metropolitan County (Birmingham city region) that fares worst, followed by Tyne and Wear and the rest of the North East, as shown on figure 3.4. This figure also shows that for adults, the highest excess capacity rates are in urban areas, which is not so clearly the case for young people.

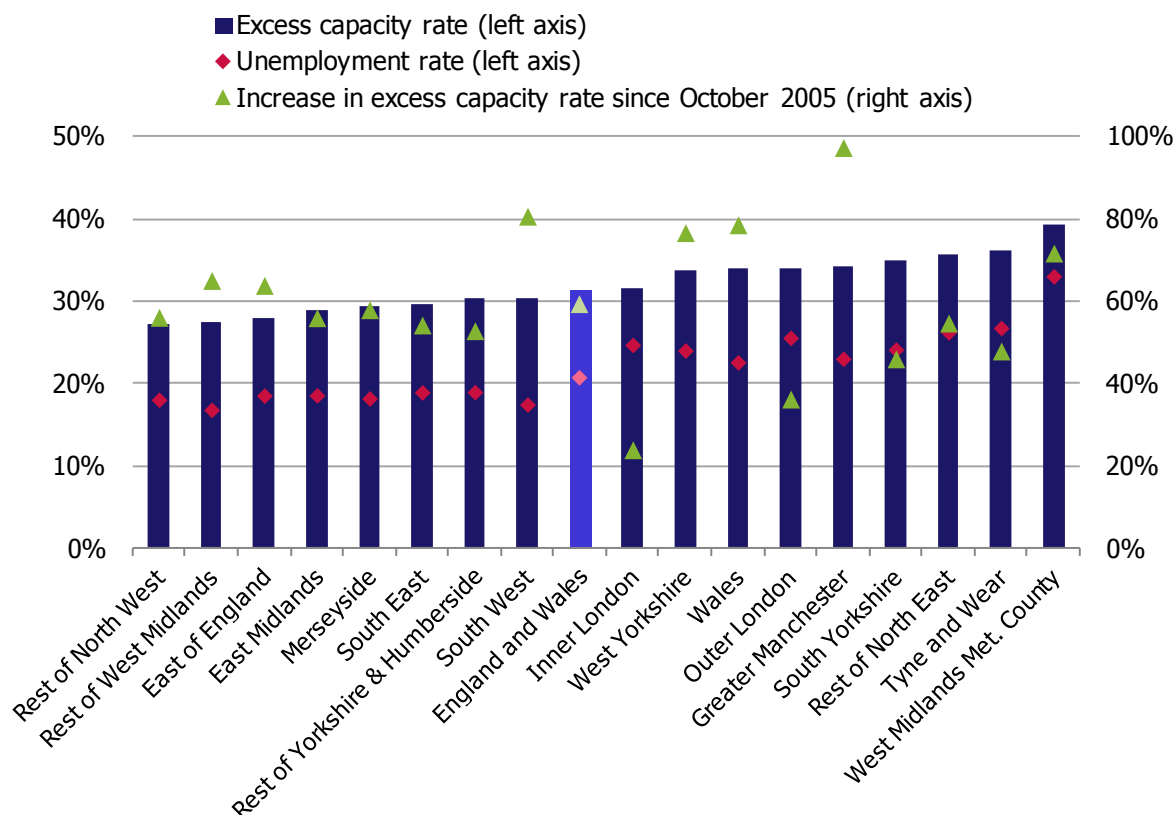
Figure 3.4: Excess capacity rates (%), young people compared to adults, England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

Unsurprisingly, excess youth capacity in sub-regions very clearly mirrors sub-regional youth unemployment rates, as shown on figure 3.5. Unlike the total youth hidden talent, changes in excess capacity rates in recent years do not seem to follow a clear pattern. As in England and Wales as a whole, most sub-regions have seen substantial increase, with the rate in Greater Manchester having doubled since 2005.

Figure 3.5: Excess capacity rates, unemployment rates and change in excess capacity rates since 2005, young people (16-24 year olds), England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

Overall, our sub-regional analysis pinpoints **mainly urban areas outside London as facing the biggest challenges around hidden talent and excess capacity in the youth labour market**. Sheffield, Leeds, Birmingham and Newcastle city regions all stand out, the rural North East is facing challenges in terms of excess capacity in particular, and Greater Manchester has seen the largest deterioration in recent years.

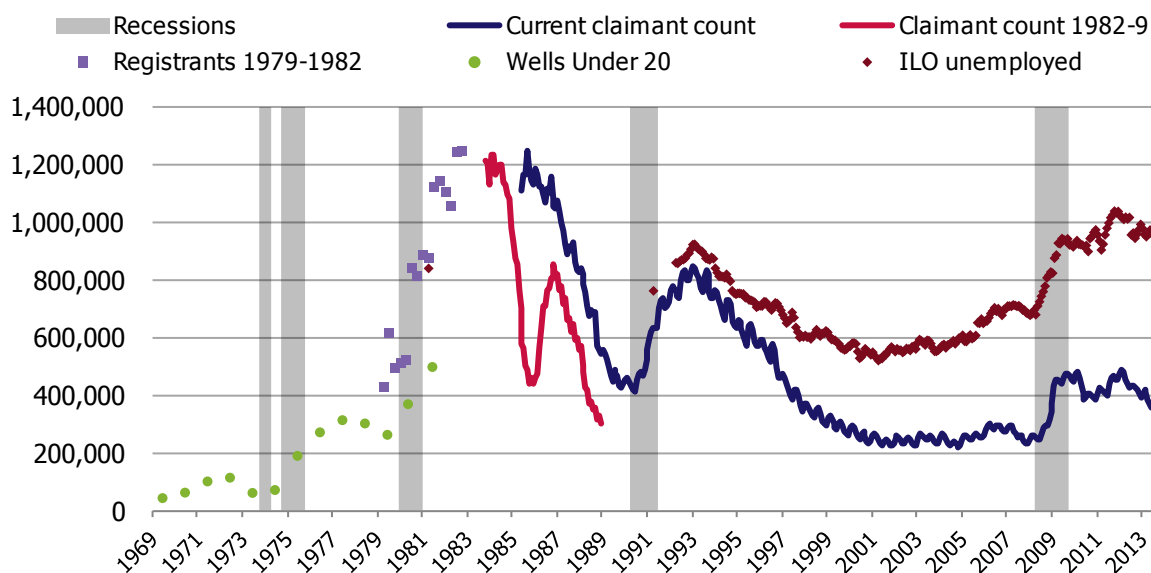
Annex two provides further analysis of total hidden talent and excess capacity levels in sub-regions.

4 What will the total hidden talent be in future?

In this chapter, we assess the prospects for the size of the total youth hidden talent in coming years, based on expectations for a modest return to growth. We do this using statistical techniques that establish a relationship between the total hidden talent and Gross Domestic Product (GDP) levels, and project this relationship forward on the basis of GDP growth forecasts.²⁰ Whilst we have attempted to conduct this modelling as robustly as possible, given uncertainty in the forecasts used and the range of factors that may drive total hidden talent levels, the results in this chapter should be considered as an experimental estimate only, and treated with a high degree of caution.

Our approach in this chapter builds on the well-known link between unemployment levels and economic growth, and extends this from just the unemployed to the other groups within our total hidden talent definition. In particular, we know that recessions entail large rises in youth unemployment, as illustrated by figure 4.1.

Figure 4.1: Youth unemployment (multiple measures) since 1969, UK / GB



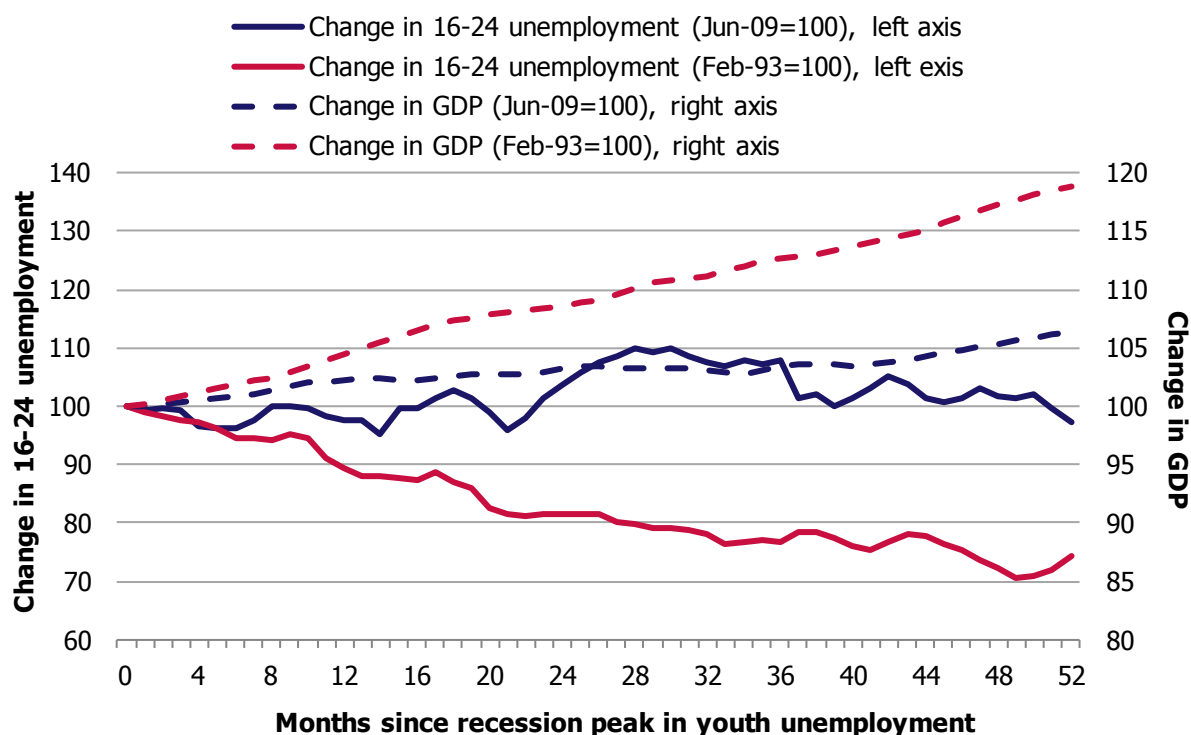
Sources: Claimant Count, Jobcentre Plus Administrative System, Labour Force Survey, and historical statistics, Office for National Statistics

²⁰ GDP figures and forecasts in this chapter are drawn from: Office for Budget Responsibility (2013) *Economic and Fiscal Outlook, December 2013*; and Office for National Statistics (2013) *Gross Domestic Product Preliminary Estimate, Q4 2013*

Figure 4.1 combines a number of administrative and survey measures of youth unemployment (the current preferred measure not being available before 1992), with recessions shown in grey. In particular, from figure 4.1 we can see that the peak in youth unemployment in the UK following the most recent recession looks larger and more sustained than what happened following the 1990s recession, and may have more in common with the 1980s.

Again, this difference in the pace of improvement in youth unemployment following recent recessions appears to have been at least partly driven by the overarching economic context. Figure 4.2 charts the change in youth unemployment in the years following recession for the 1990s (in pink) and 2000s (in blue) compared to changes in GDP. The much stronger economic recovery in the 1990s (the rising dotted pink line) was coupled with falling youth unemployment, while flat growth in recent years has been coupled with flat youth unemployment.

Figure 4.2: Index of youth unemployment and GDP following recession peak in youth unemployment, 1990s compared to 2000s recession, UK

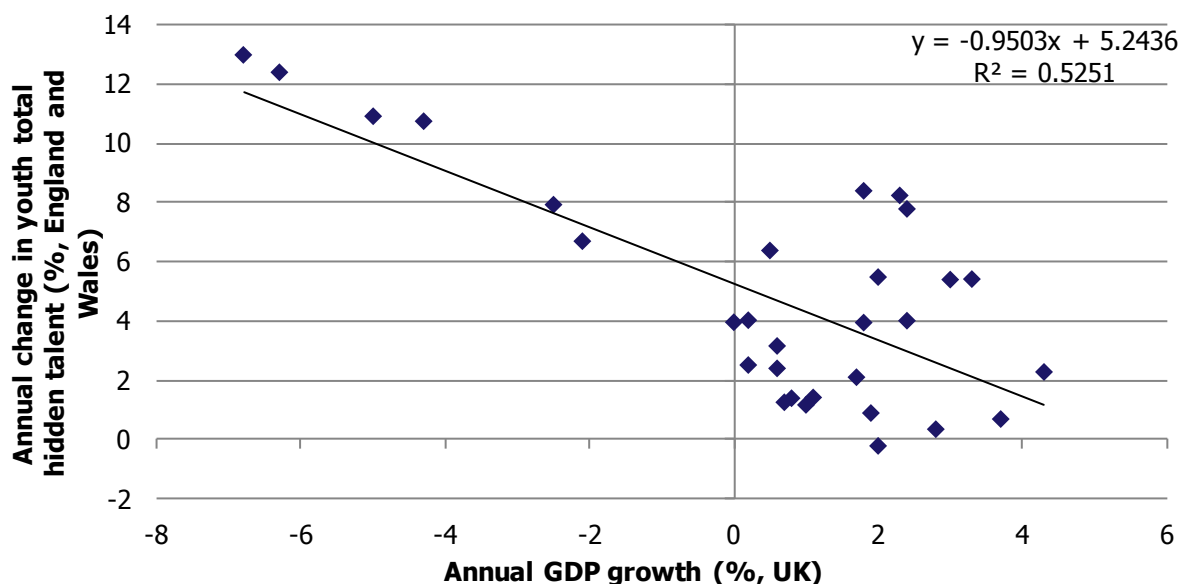


Source: Labour Force Survey and Gross Domestic Product Preliminary Estimates, Office for National Statistics

With this as context, it seems appropriate to explore the relationship between economic growth and our broader measure of slack in the youth labour market. Figure 4.3 shows the relationship between annual growth rates for UK GDP and total youth hidden talent levels in England and Wales, and suggests relatively strong negative correlation between the two. In other words, when the national economy

has grown more quickly in recent years, the total youth hidden talent has either grown more slowly or shrunk.

Figure 4.3: Annual growth in GDP (UK) and total youth hidden talent levels (England and Wales), Apr 2005–Sep 2013



Source: Labour Force Survey and Gross Domestic Product Preliminary Estimates, Office for National Statistics

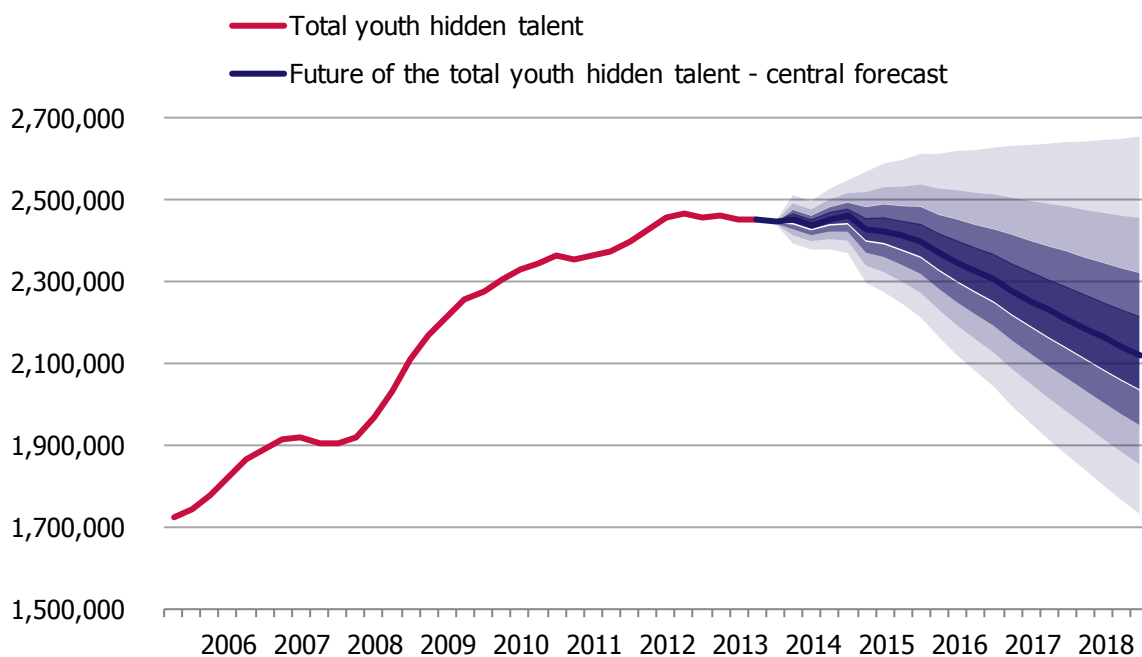
As well as an apparent relationship with economic growth, we judge that the size of the total youth population is likely to be a predictor of the size of the total hidden talent. For example, we observed in chapter two that a growing 16-24 population in recent years may explain part of the sustained rise in total youth hidden talent levels. As such, we have conducted statistical modelling to establish the historical relationship between both economic growth rates and population growth, and changes in the size of the total hidden talent. Details of our modelling are provided in table A3 in annex three.

The resulting model has relatively high predictive capability overall, with both GDP growth and population growth significantly associated with changes in the total youth hidden talent. Thus, we are confident in using this model to produce an experimental estimate of future hidden talent levels, by inputting the latest GDP growth forecasts from the Office for Budget Responsibility and 16-24 population forecasts provided by the ONS. The forecasts we have used predict modest GDP growth averaging 2.5% annually through to 2018, and the 16-24 year old population in England and Wales shrinking by 344,000 by 2018. These forecasts are detailed in full in table A4 in annex three.

On the basis of these forecasts, our central estimate is that the total youth hidden talent in England and Wales will begin falling in 2015 and continue to fall through to the end of 2018. **By the end of 2018, we estimate that the total youth hidden talent will have fallen from 2.46 million to 2.12 million** (34% of the forecast population).

This central forecast is shown by the solid blue line on figure 4.4, below. The successive pairs of lighter shaded blue areas represent modelling based on 20% probability bands for the GDP forecast.²¹ This does not mean that there is an 80% chance of the total youth hidden talent lying within the shaded area on this chart, as there are other unknowns in our modelling than just the accuracy of the GDP forecasts, including population forecasts and the predictive capability of the model itself. However, the probability bands represent a sensible range in which the total youth hidden talent is relatively likely to fall.

Figure 4.4: Forecasting the future of the total youth hidden talent, England and Wales



Source: Labour Force Survey, Gross Domestic Product Preliminary Estimates, Mid-year Population Estimates, and 2012-based National Population Projections, Office for National Statistics; Office for Budget Responsibility (2013) *Economic and Fiscal Outlook, December 2013*

²¹ These 20% probability bands are formed on the basis of the distribution of historical GDP growth forecast errors since 1987. Bank of England and other independent forecasts for GDP growth lie within the first 20% probability band. See: Office for Budget Responsibility (2013) *Economic and Fiscal Outlook, December 2013*

These probability bands show that **even on the most optimistic forecast for economic growth, we predict that the total youth hidden talent will still be higher in 2018 than it was in 2005.**

It is not possible to replicate this modelling exercise for regions or sub-regions, as there are no robust forecasts available for regional Gross Value Added (GVA).²²

The findings in this chapter, although highly experimental, provide some hopeful news: modest growth forecasts (plus a shrinking population) suggest that the rise in the total youth hidden talent in England and Wales may start to reverse in coming years. However, this group is predicted to remain large, still making up more than a third of the youth population at the end of 2018. Combined with our findings in chapter two around particularly high excess capacity levels for young people, this suggests that youth unemployment and various types of youth underemployment will remain a big challenge in coming years.

²² In addition, historical regional GVA figures are only provided annually, giving far fewer observations upon which to base modelling. Experimental analysis of annual changes in regional total youth hidden talent levels and annual GVA growth shows a correlation in some regions, suggesting that the relationship identified in our national modelling is likely to hold true at the regional level.

5 Conclusions

The findings in this paper are intended to inform policymakers and those delivering services for young people by casting further light on the nature of the youth unemployment and underemployment challenge. As such, we conclude by offering some brief reflections on what these findings might mean for policy and practice.

We have found that two in five young people in England and Wales can be considered not employed to their potential according to various definitions. This figure rises to half of young people in the worst-affected areas of the country, which is where the total youth hidden talent is growing fastest. The majority of this group is not working at all (and many will have never had a job), which once again underlines the need for effective systems to prepare young people for the world of work and maximise their recruitment. The evidence we have so far suggests that the government's Youth Contract is not having nearly the impact that was intended,²³ and the Work Programme has yet to achieve the performance gains that were expected of it.²⁴ The policy recommendations in our 2011 report on youth unemployment – around incentivising employers to offer apprenticeships, targeted measures to tackle long-term youth unemployment, and joining up a fragmented provision landscape – still ring true.²⁵

Further, as highlighted at the outset, our definition of the total hidden talent includes students in part- and full-time education. With the raising of the educational participation age in England, the number of young people working (or seeking work) and learning at the same time is likely to increase, as is the length of time the transition from education to employment takes. In addition, we have highlighted young people with graduate-level qualifications working in non-graduate jobs as an underutilised group that warrants further consideration. These findings point to the need to ensure that our skills system is adequately geared around young people's employment. This entails providing sufficient opportunities to learn and up-skill while working, and ensuring that young people are prepared for the jobs that are available

²³ Bivand, P. (2013) *Youth Contract Wage Incentives – a failure to listen to evidence*, Centre for Economic & Social Inclusion blog, 22 July 2013

²⁴ Centre for Economic & Social Inclusion (2013) *DWP Work Programme: how is it performing?: Work Programme performance statistics – 19 December 2013*

²⁵ Bivand, P., Gardiner, L., Whitehurst, D. and Wilson, T. (2011) *Youth unemployment: A million reasons to act?*, Centre for Economic & Social Inclusion

at the local level, as our previous analysis of the 'skills mismatch' for young people has highlighted.²⁶

Finally, in addition to those out of work, just under half of the total youth hidden talent is working. This highlights the need for policies and programmes that not only support young people to get jobs, but support them to progress in these jobs, progress to better jobs, increase their wages and develop their careers. The recommendations in our recent report on low pay and progression are therefore particularly relevant to the young people we have identified as not working enough or not working to their potential. These include unlocking the Adult Skills Budget for progression, realigning Jobcentre Plus incentives away from benefit exit and towards sustainable employment, and developing and testing dedicated progression programmes at the local level on the basis of evidence of what works.²⁷

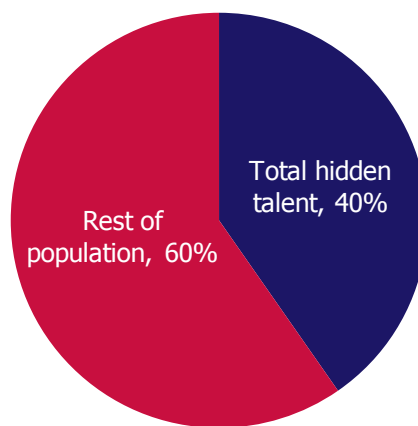
²⁶ Gardiner, L, and Wilson, T (2012) *Hidden Talents: Skills mismatch analysis*, Centre for Economic & Social Inclusion

²⁷ Wilson, T., Gardiner, L. and Krasnowski, K. (2013) *Work in Progress: Low pay and progression in London and the UK*, Centre for Economic & Social Inclusion

Annex 1: Comparing adults and young people

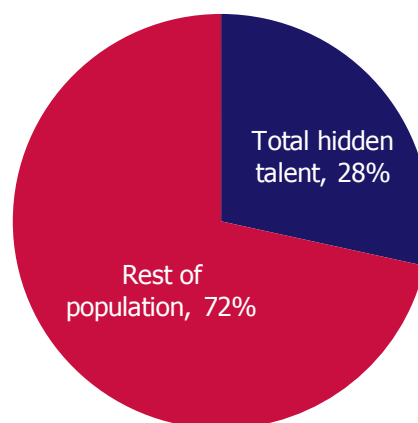
This annex provides comparative charts showing total hidden talent levels among young people and adults in England and Wales.

Figure A1: Total hidden talent proportion, young people (16-24 year olds), England and Wales, Oct 2012–Sep 2013



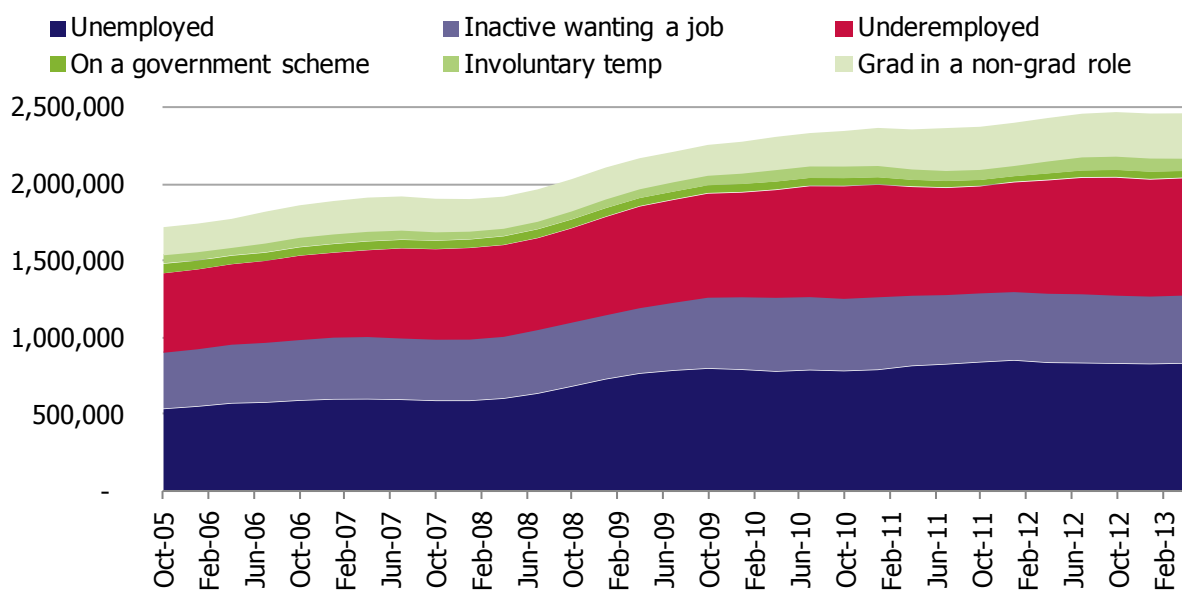
Source: Quarterly Labour Force Survey; Office for National Statistics

Figure A2: Total hidden talent proportion, adults (25-64 year olds), England and Wales, Oct 2012–Sep 2013



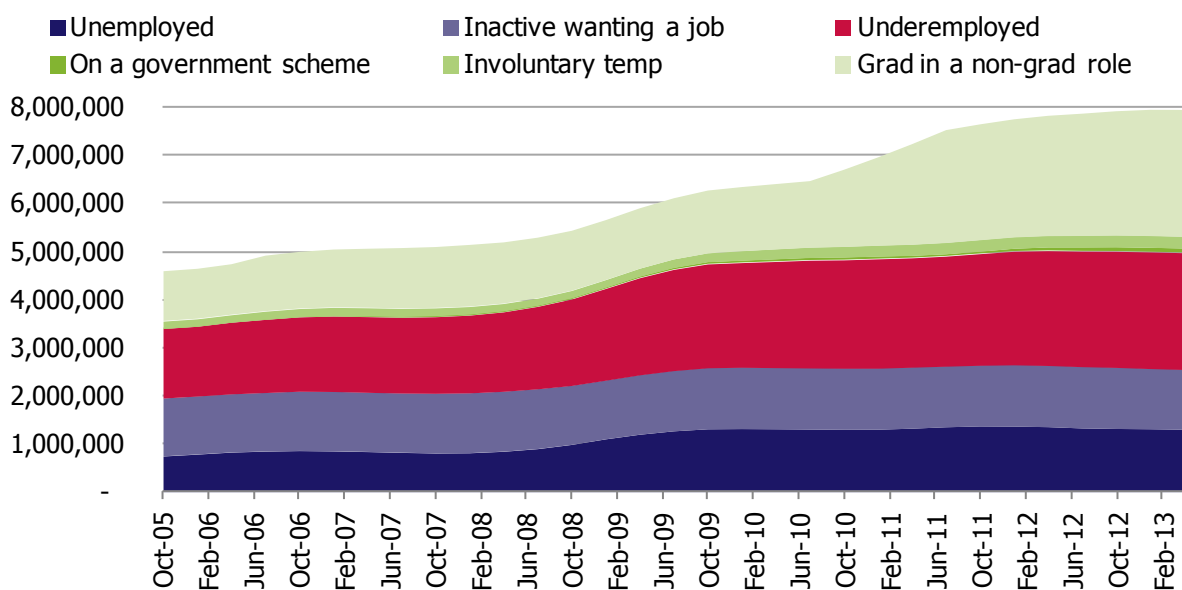
Source: Quarterly Labour Force Survey; Office for National Statistics

Figure A3: Total hidden talent composition, young people (16-24 year olds), England and Wales



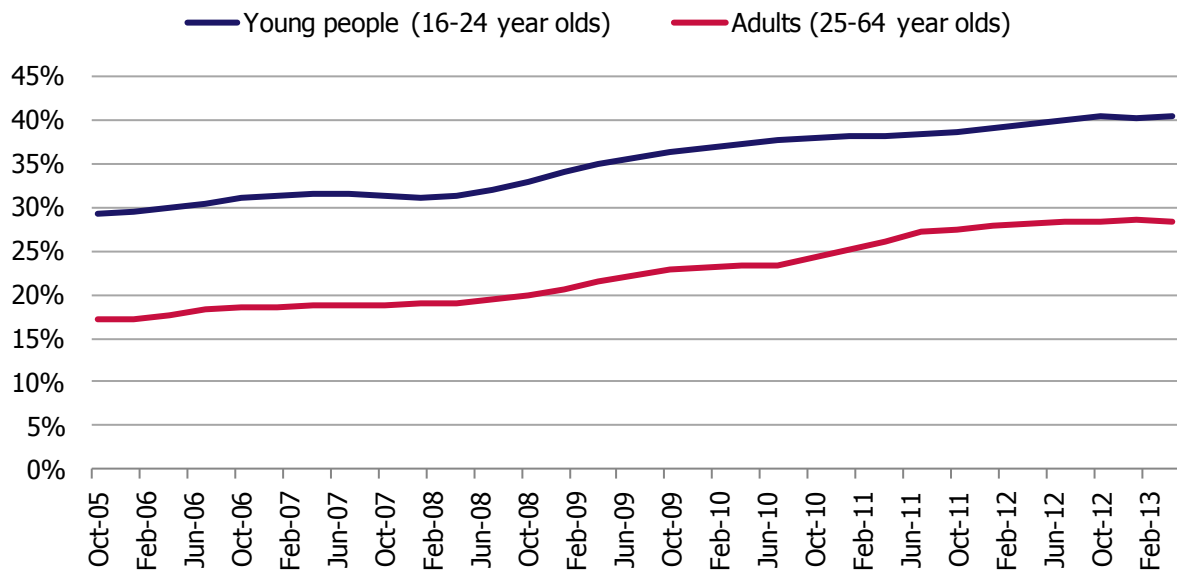
Source: Quarterly Labour Force Survey; Office for National Statistics

Figure A4: Total hidden talent composition, adults (25-64 year olds), England and Wales



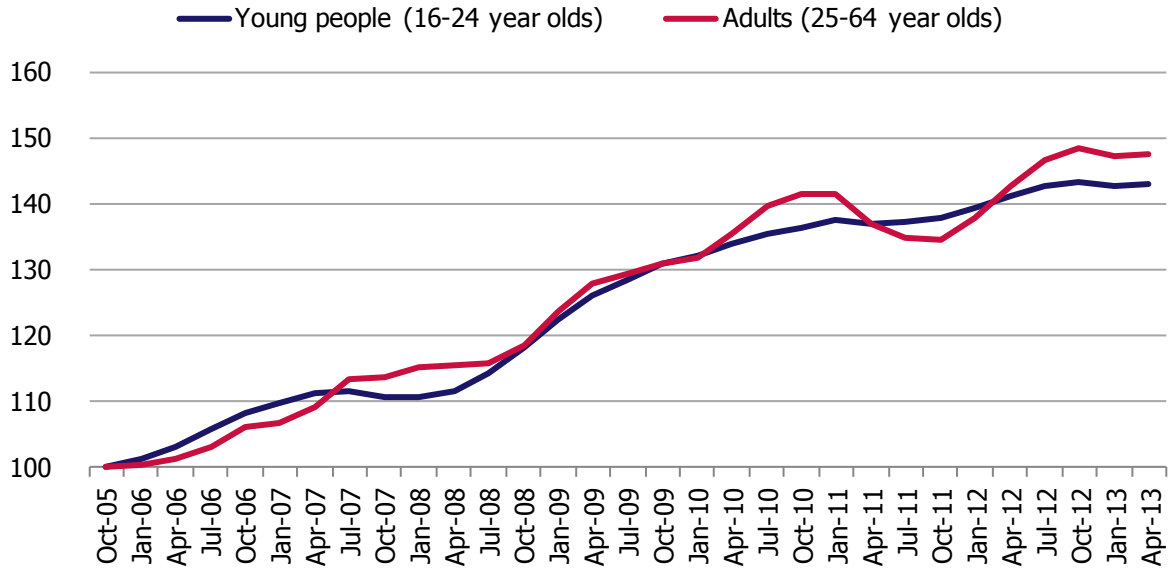
Source: Quarterly Labour Force Survey; Office for National Statistics

Figure A5: Total hidden talent as a proportion of the population, young people compared to adults, England and Wales



Source: Quarterly Labour Force Survey; Office for National Statistics

Figure A6: Index of change in total hidden talent since 2005 (Oct-05=100), young people compared to adults, England and Wales



Source: Quarterly Labour Force Survey; Office for National Statistics

Annex 2: Comparing areas

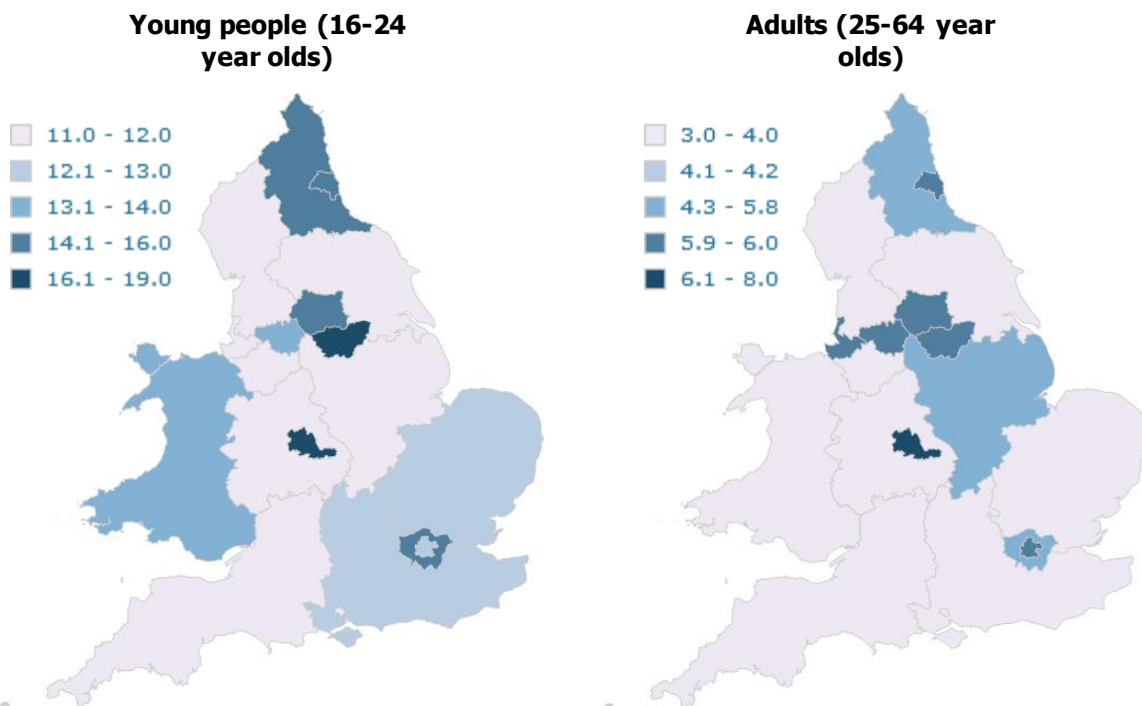
This annex provides further information on total hidden talent and excess capacity levels in sub-regions of England and Wales.

Table A1: Summary of total hidden talent for young people and adults in sub-regions, Oct 2012–Sep 2013

	Total hidden talent as a proportion of the population – young people (16-24 year olds)	Total hidden talent groups as a proportion of the population – young people (16-24 year olds)			Increase in the total hidden talent since October 2005 – young people (16-24 year olds)	Total hidden talent as a proportion of the population – adults (25-64 year olds)	Percentage point difference between youth (16-24 year old) and adult (25-64 year old) total hidden talent rates
		Not working but wanting to	Not working enough	Not working to their potential			
Inner London	35%	20%	6%	9%	20%	33%	2
Rest of West Midlands	37%	16%	14%	6%	36%	24%	13
East Midlands	37%	18%	12%	6%	33%	28%	9
Merseyside	37%	18%	12%	7%	22%	29%	8
East of England	38%	19%	14%	5%	44%	27%	11
Rest of Yorkshire & Humberside	39%	18%	14%	7%	25%	26%	12
West Midlands Metropolitan County	40%	26%	9%	5%	39%	29%	11
South West	41%	19%	16%	6%	49%	28%	13
Rest of North East	41%	25%	12%	4%	21%	29%	12
Rest of North West	41%	21%	13%	8%	41%	27%	14
Wales	42%	21%	13%	8%	49%	29%	13
Outer London	42%	24%	10%	8%	33%	32%	10
South East	42%	21%	14%	7%	48%	27%	15
Greater Manchester	42%	22%	13%	8%	73%	30%	12
Tyne and Wear	43%	24%	14%	5%	26%	29%	13
West Yorkshire	44%	23%	13%	8%	68%	29%	15
South Yorkshire	49%	24%	16%	9%	74%	31%	18
England and Wales	40%	21%	12%	7%	43%	28%	12

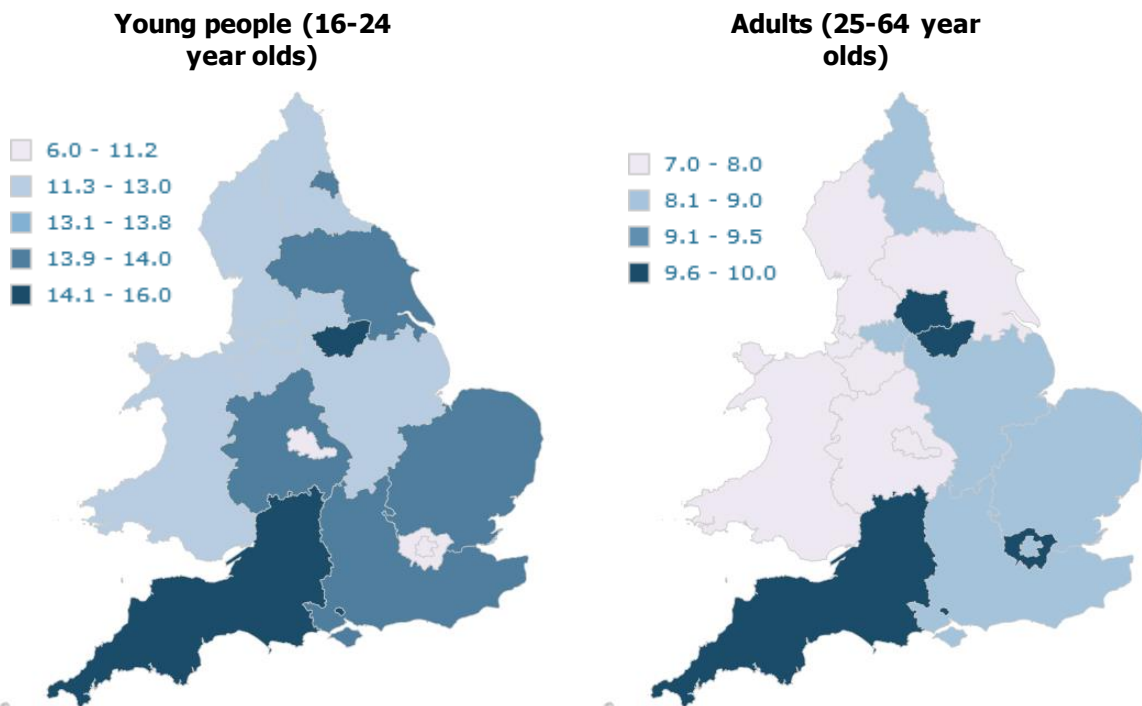
Source: Quarterly Labour Force Survey, Office for National Statistics

Figure A7: Unemployed people as a proportion of the population (%), young people compared to adults, England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

Figure A8: Underemployed people a proportion of the population (%), young people compared to adults, England and Wales, Oct 2012–Sep 2013



Source: Quarterly Labour Force Survey; Office for National Statistics

Table A2: Summary of excess capacity for young people and adults in sub-regions, Oct 2012–Sep 2013

	Total hidden hours per year – young people (16-24 year olds)	Total hidden hours per person per year – young people (16-24 year olds)	Unemployment rate – young people (16-24 year olds)	Excess capacity rate – young people (16-24 year olds)	Increase in the excess capacity rate since October 2005 – young people (16-24 year olds)	Excess capacity rate – adults (25-64 year olds)	Percentage point difference between youth (16-24 year old) and adult (25-64 year old) excess capacity rates
Rest of North West	91,992,000	289	18%	27%	56%	6%	21
Rest of West Midlands	89,030,000	313	17%	27%	65%	5%	22
East of England	202,340,000	326	18%	28%	64%	7%	21
East Midlands	157,462,000	296	18%	29%	56%	8%	21
Merseyside	47,695,000	288	18%	29%	58%	9%	20
South East	302,377,000	325	19%	30%	54%	6%	23
Rest of Yorkshire & Humberside	60,560,000	307	19%	30%	53%	6%	24
South West	196,965,000	337	17%	30%	81%	6%	24
Inner London	96,040,000	264	25%	32%	24%	11%	20
West Yorkshire	100,210,000	320	24%	34%	77%	10%	23
Wales	122,330,000	340	22%	34%	78%	8%	26
Outer London	164,700,000	320	25%	34%	36%	10%	24
Greater Manchester	125,720,000	351	23%	34%	97%	10%	24
South Yorkshire	78,907,000	448	24%	35%	46%	11%	24
Rest of North East	57,312,000	333	26%	36%	55%	8%	27
Tyne and Wear	54,439,000	348	27%	36%	48%	10%	26
West Midlands Metropolitan County	127,532,000	363	33%	39%	72%	13%	27
England and Wales	2,073,689,000	323	21%	31%	59%	8%	23

Source: Quarterly Labour Force Survey, Office for National Statistics

Annex 3: Future of the total hidden talent – modelling results

To identify the relationship between the total youth hidden talent in England and Wales, the 16-24 population in England and Wales, and UK GDP, we ran a linear regression where the dependent variable is the annual change in total youth hidden talent levels, and the independent variables are the annual changes in GDP and youth population levels.

The results of our regression are provided in table A3, below.

Table A3: Linear regression results – changes in the total youth hidden talent (England and Wales), regressed on GDP changes (UK) and youth population changes (England and Wales), Apr 2005–Sep 2013

Regression statistics	
Multiple R	0.84
R Square	0.70
Adjusted R Square	0.68
Standard Error	2.13
Observations	30
Significance of the model (F-statistic)	***

Independent variables	Coefficient	Standard error	Significance
Annual 16-24 population growth (England and Wales)	2.61	0.66	***
Annual GDP growth (UK)	-1.19	0.15	***

'Significance' indicates the statistical significance of the model as a whole or the estimated coefficient: *** = 99%; ** = 95%; * = 90%. Source: Labour Force Survey, Gross Domestic Product Preliminary Estimates and Mid-year Population Estimates, Office for National Statistics

There are likely to be a multitude of factors other than population and the national economy that drive total youth hidden talent levels, such as wages, labour market regulation and the nature of active labour market policy. However, population levels and economic growth are the only indicators for which we have reliable forecasts for years to come. So, given that we are seeking to model future hidden talent levels on the basis of historical trends, we have limited our statistical modelling to these two indicators.

The forecasts used in modelling the future of the total youth hidden talent are provided below in table A4.

Table A4: Forecasts used in modelling the future of the total youth hidden talent

Year	16-24 year old population, England and Wales	GDP growth (central forecast), UK
2012	6,637,000	
2013	6,630,000	
2014	6,604,000	2.4
2015	6,554,000	2.2
2016	6,470,000	2.6
2017	6,380,000	2.7
2018	6,293,000	2.7

Source: 2012-based National Population Projections, Office for National Statistics; Office for Budget Responsibility (2013) *Economic and Fiscal Outlook, December 2013*
