

COVID-19 and the career prospects of young people

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Key findings

- **Over the last decade, young people starting out in the labour market have increasingly been working in occupations that are relatively low-paid.** For example, people born in the 1980s are more likely than those born in the 1970s to start their careers in low-paying occupations such as customer service assistants and nursery workers, and less likely to start in mid-paying occupations such as jobs in metal manufacturing and secretarial work.
- **As bad luck would have it, many of these low-paying occupations are in sectors hardest hit by the COVID-19 crisis: for example, hospitality and non-food retail.** In 2007 around 19% of all people aged between 22 and 25 working in their first full-time job after leaving education were employed in sectors that were essentially shut down during lockdown, while by 2019 this had increased to 22%. By contrast, the share of all employees working in shut-down sectors had fallen slightly from 17% in 2007 to 16% in 2019.
- **The growing importance of those ‘lockdown sectors’ as employers of workers at the start of their careers is primarily due to an expansion of the accommodation and food industry.** The share of workers starting their careers in this sector increased by about 50%, from 6% to 9%, between 2007 and 2019.
- **As other sources of wage growth have dried up, young workers have become increasingly reliant on moving into higher-paying occupations as a source of early-career wage growth.** Around 28% of wage growth over the first five years of the careers of workers born in the 1970s could be attributed to moving into a higher-paying occupation. This had risen to around 50% among men born in the 1980s and women born between 1980 and 1984, and to 60% among women born between 1985 and 1989.
- **The COVID-19 pandemic has severely dented the career prospects of young people and threatens to have a prolonged negative economic impact on them as a result.** Sharp contractions in shut-down sectors will make it harder for young people to take their first step onto the career ladder, while reduced job opportunities will make it harder for them to move into higher-paying occupations.

There is growing evidence that economic consequences of the COVID-19 pandemic are particularly negative for young people. On the eve of the coronavirus outbreak, workers aged below 25 were more likely than other workers to be employed in sectors that have been effectively shut down as part of the UK lockdown¹ and they are more likely to have lost their jobs since then.² This note shows that the economic repercussions of the pandemic threaten to severely disrupt the career progression of young workers, which suggests negative economic impacts on this age group may last well beyond the easing of the lockdown.

The first step on the career ladder

Figure 1 shows that young people have increasingly been starting their careers in sectors that have been essentially shut down as part of the initial phase of the lockdown.³ The importance of these sectors for young workers increased gradually during the early 2000s before jumping in the years after the financial crisis. Around 17% of all people aged between 22 and 25 working in their first full-time job after leaving education were employed in one of these sectors at the turn of the millennium, whereas by 2007 this had increased to 19% and by 2019 it had reached 22%. By contrast, the importance of these sectors for the UK workforce as a whole has remained broadly unchanged, with around 16–17% of all employees working in these sectors in every year between 1994 and 2019. The growing importance of shut-down sectors as employers of workers at the start of their careers is primarily due to an expansion of the accommodation and food industry. The share of workers starting their careers in this sector grew from 6% to 9% between 2007 and 2019, while the share among all employees grew from 5% to 6%.

Shut-down sectors typically involve jobs that are low-paid. This is particularly true of accommodation and food, and retail (excluding food and pharmaceutical retail), which are the largest industries in this category. Indeed, at the same time as young workers have been increasingly starting their careers in these sectors, Figure 2 shows that they have been increasingly starting their careers in lower-paying occupations compared with earlier cohorts and the workforce as a whole.

¹ R. Joyce and X. Xu, 'Sector shutdowns during the coronavirus crisis: which workers are most exposed?', Institute for Fiscal Studies (IFS), Briefing Note 278, 2020, <https://www.ifs.org.uk/publications/14791>.

² A. Adams-Prassl, T. Boneva, M. Golin and C. Rauh, 'Inequality in the impact of the coronavirus shock: new survey evidence for the UK', Cambridge-INET Institute, Working Paper 2020-10, <https://www.inet.econ.cam.ac.uk/working-paper-pdfs/wp2010.pdf>; M. Gustafsson, 'Young workers in the coronavirus crisis', Resolution Foundation Spotlight, 2020, <https://www.resolutionfoundation.org/publications/young-workers-in-the-coronavirus-crisis>.

³ The sectors classed as being shut down during the lockdown are (with four-digit Standard Industrial Classification (SIC) codes in parentheses): non-food, non-pharmaceutical retail (4719, 4730–4772, 4776–4799); passenger transport (4910, 4931–4939, 5010, 5030, 5110); accommodation and food (5510–5630); travel (7911–7990); childcare (8510, 8891); arts and leisure (9001–9329 except 'artistic creation' 9003); personal care (9601–9609 except 'funeral and related activities' 9603); and domestic services (9700).

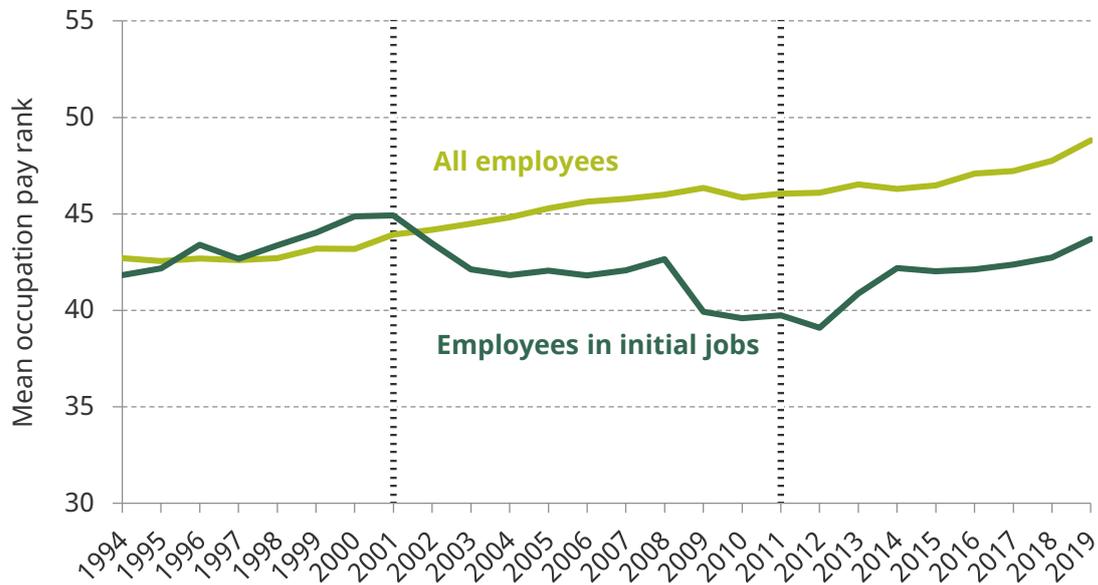
Figure 1. Share of employees in shut-down sectors



Note: Dashed line indicates the start of the Great Recession. We identify initial jobs in the Labour Force Survey by restricting the sample to full-time employees aged between 22 and 25 and comparing respondents' age against the age at which they report leaving full-time education.

Source: Labour Force Survey 1994–2019.

Figure 2. Mean occupation pay rank of UK employees



Note: Dashed lines indicate changes in occupation classifications. We identify initial jobs in the Labour Force Survey by restricting the sample to full-time employees aged between 22 and 25 and comparing respondents' age against the age at which they report leaving full-time education. Occupations are measured at the four-digit level and are each counted once when computing their pay rank (i.e. we do not weight by the number of workers). Occupation pay ranks are defined each decade using mean hourly wages within an occupation during that decade.

Source: Labour Force Survey 1994–2019.

During the 1990s, the occupations of young people at the start of their careers looked very similar to those of the workforce as a whole in terms of typical levels of pay. By 2019, however, the average young person was starting their career in an occupation that paid a mean wage of around £13.30, whereas the average worker in the overall labour force was working in an occupation that paid a mean wage of £14.30. If we rank all occupations by their average pay level, that is equivalent to the difference between a 44th-percentile occupation and a 49th-percentile occupation. Looking at occupations in more detail shows that the increase for the workforce as a whole over the period is due to more people working in high-paying jobs such as sales account management and investment banking. By contrast, the trend among early-career workers arises partly because people born in the 1980s are more likely than the 1970s cohort to start their careers in low-paying occupations such as customer service assistants and nursery workers, and are less likely to start in mid-paying occupations such as jobs in metal manufacturing and secretarial work. This trend towards lower-paying occupations has occurred despite rising rates of participation in higher education and university attendance: whereas 42% of people born in the 1970s stayed in education beyond the age of 18, this had increased to 50% among the 1980s cohort.

The economic damage the coronavirus pandemic is undoubtedly doing to shut-down sectors is likely to become somewhat less severe as lockdown measures start to be eased. However, the magnitude of impacts that have occurred over the lockdown period and continuation of social distancing means that these sectors are likely to experience large contractions extending beyond the end of the initial lockdown. The importance of these sectors as employers of workers at the start of careers suggests that young workers may struggle to take their first step onto the career ladder over the coming months.

Progression among early-career workers

In addition to negative impacts on workers at the very start of their careers, the coronavirus pandemic is likely to severely disrupt career progression and the pay growth that comes with it. Sharp reductions in vacancy postings will make it harder for workers to find better opportunities than their current job, while increases in layoffs will cause more people to fall off the career ladder altogether.⁴ Such disruptions are likely to be problematic for young people, as early-career wage growth is particularly reliant on moving into higher-paying occupations.

The importance of occupational progression can be seen in Figure 3, which shows the change in average wages among men and women between the start of their career (defined as their first full-time job when aged 22–25) and five years later. The light green bars show how much the average pay of workers' occupations changed over the relevant period. Hence, they are a simple indicator of the amount of wage growth that can be attributed to people moving into occupations with typical rates of pay that are higher than the typical pay of the occupation they worked in at the start of their career. Workers born in the 1980s have actually been moving into higher-paying occupations to a greater extent than those born in the 1970s. Women born in the first half of the 1980s, for example,

⁴ <https://www.ifs.org.uk/realtimejobvacancytracker>; M. Costa Dias, A. Norris Keiller, F. Postel-Vinay and X. Xu, 'Job vacancies during the Covid-19 pandemic', Institute for Fiscal Studies (IFS), Briefing Note 289, 2020, <https://www.ifs.org.uk/publications/14854>; G. Moscarini and F. Postel-Vinay, 'The cyclical job ladder', *Annual Review of Economics*, 2018, 10, 165–88, <https://doi.org/10.1146/annurev-economics-080217-053425>.

started their careers in occupations with mean wages of £15.80 on average. Five years later, their mean occupation wage had increased by £2.02 to £17.82 as a result of people moving into higher-paying occupations. The equivalent increase among women born in the 1970s was smaller, at £1.32, indicating a slower rate of occupational progression.

However, despite faster rates of occupational progression, Figure 3 shows that workers born in the 1980s saw less overall wage growth during the first five years of their careers than workers born in the 1970s because of a slowdown in other sources of wage growth. In other words, in the past, when wage growth across the economy was strong, even people who did not change occupations could expect to see substantial wage growth early in their careers; this has been much less true of recent cohorts. The result is that occupational progression has become a crucial determinant of early-career wage growth: while around 28% of wage growth over the first five years of the careers of workers born in the 1970s could be attributed to occupational progression, this had risen to around 50% among men born in the 1980s and women born between 1980 and 1984, and to 60% among women born between 1985 and 1989. Because the 1985–89 cohort entered the labour market during and immediately after the Great Recession, their experience is likely to be similar to that of young people facing the prospect of starting their careers in the midst of the current downturn. This suggests that occupational progression will continue to be a key source of wage growth for early-career workers over the coming years.

Figure 3. Real change in mean wage over first five years of careers, by gender and birth cohort



Note: Monetary values are deflated using a variant of the Consumer Prices Index that includes housing costs and are expressed in 2020 Q1 prices. Sample is restricted to people observed both in their initial job and after five years.

Source: New Earnings Survey Panel Dataset 1975–2016.

Summary

The COVID-19 pandemic has severely dented the career prospects of young people for two reasons. First, sharp contractions in sectors that have effectively been shut down during the lockdown are likely to make it harder for workers to make their first step onto the career ladder. Second, the economic downturn is likely to make it harder for workers to move into higher-paying occupations, which is worrying because this sort of occupational progression is a particularly important source of early-career wage growth.

Although we have focused on young people, it should be noted that there are other reasons why older workers are at risk of costly disruptions to their careers. They are, for example, more likely to have built up knowledge and skills that are specific to a particular firm or industry and therefore have more to lose if their employer ceases to operate or their industry experiences a sector-wide contraction.⁵ However, there is evidence that economic downturns are particularly damaging for the careers of young people, with ‘scarring’ effects on their pay and employment lasting several years after the end of economic contractions.⁶ The pandemic therefore threatens to have a prolonged negative economic impact on young people by reducing demand for the jobs that are typical among workers at the start of their careers and making it harder for workers to find better opportunities than their current jobs. As the government attempts to manage the labour market impacts of COVID-19 in the coming months, it should have a particular focus on the challenges facing the young.

Data

Office for National Statistics. (2017). *New Earnings Survey Panel Dataset, 1975-2016: Secure Access*. [data collection]. 7th Edition. UK Data Service. SN: 6706, <http://doi.org/10.5255/UKDA-SN-6706-7>

Office for National Statistics, Social Survey Division, Northern Ireland Statistics and Research Agency, Central Survey Unit. (2020). *Quarterly Labour Force Survey, 1992-2019: Secure Access*. [data collection]. 18th Edition. UK Data Service. SN: 6727, <http://doi.org/10.5255/UKDA-SN-6727-19>

⁵ Indeed, this relates to a central objective of the government’s Coronavirus Job Retention Scheme – to reduce the number of worker–firm links that are severed during the pandemic when, in the longer term, the match would be a valuable one (M. Costa Dias, R. Joyce, F. Postel-Vinay and X. Xu, ‘The challenges for labour market policy during the Covid-19 pandemic’, Institute for Fiscal Studies (IFS), Observation, March 2020, <https://www.ifs.org.uk/publications/14767>).

⁶ J. Cribb, A. Hood and R. Joyce, ‘Entering the labour market in a weak economy: scarring and insurance’, Institute for Fiscal Studies (IFS), Working Paper. W17/27, 2017, <https://www.ifs.org.uk/publications/10180>.