

Labour market in times of crisis

Strategic Foresight – scenario 6

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Key features of the scenario

- The economic environment is characterised by permacrisis or polycrisis. Europe is forced to react to a continuing series of shocks to its economy and labour market which creates an uncertain environment in which to plan and make investments.
- The diffusion of automation and artificial intelligence (AI), especially in the guise of generative pre-trained transformers (GPTs) will gather pace. This has an impact on employment levels and structures. Automation and AI will destroy some jobs, change the content of others, and create new employment opportunities. The combination of increased diffusion of automation and an economic environment characterised by permacrisis may well result in a more fluid labour market with people moving between jobs and employers more frequently than previously.
- Public employment services (PES) struggle to support people in finding or moving jobs in a more fluid labour market. This will in part be due to PES budgets being constrained as a consequence of the permacrisis which afflicts Member States and the pressures which this places on public expenditure. It will also be a consequence of PES struggling to compete with private service providers adopting increasingly effective, technology-driven means of matching people to jobs. Jobseekers will increasingly look to private service providers to find work.
- Demographic change and the shrinking of the working age population which affects many Member States will increase pressures on employment services (both public and private). Labour shortages are a feature of employment in many sectors and will be exacerbated in some occupations/sectors by changing demands for skills which emerge as a consequence of the increased diffusion of automation/AI. Education and training systems struggle to keep pace with changes in the demand for skills resulting from automation/AI. Third-country nationals (TCNs) potentially provide a means of addressing labour or skill shortages, though there may be a political reluctance to rely on this as a source of labour supply. If automation/AI are able to boost productivity, this may alleviate some labour supply pressures.
- In a more fluid labour market where people are expected to move between jobs more frequently than in the past there may be an increased need to move home to take up work. This is constrained by housing shortages. In part, this results from an economic environment in which there is a risk aversion to investment in a situation of economic uncertainty, including to build homes. Pressures on public expenditure mean that the state's capacity to support house building is limited. This potentially reinforces regional inequalities across Europe and might constrain output growth as a consequence of relatively high levels of labour shortages in areas where housing costs are highest (i.e., in areas experiencing relatively high levels of growth).
- Housing market problems and any resulting regional inequalities are tempered by the increased opportunities for remote working. This is reinforced by the adoption of automation/AI which facilitates remote working. A wider set of changes in working conditions is driven by labour shortages (i.e., employers, especially in those parts of the economy affected by shortages, will need to provide a more attractive package of employment to recruit and retain staff) and AI/automation which increases the feasibility of introducing work arrangements desired by workers. Remote working might, however, result in the transfer of some jobs outside of Europe.
- The greening of the economy and labour market continues but this is incremental. Concerns about imposing too much cost onto employers to reduce the impact of climate change mean that resources are devoted to adapting to changes in the environment but not mitigating or reversing them.
- The challenge for PES is to provide 'more for less'. To remain attractive to workers and employers, EURES will need to adapt its portal and extend support to practical aspects such as housing, financial aid, and language courses. Financial support, especially through the Targeted Mobility Scheme (TMS), will be crucial for EURES to effectively address the complexities of a labour market in a time of crisis.

Expected developments

The European labour market experiences challenges from a state of **permacrisis**, such as the aftermath of the COVID-19 pandemic, regional conflicts, and ongoing inflation. This permacrisis has become the new normal, requiring both employers and jobseekers to make fresh adaptations to each unfolding crisis. The situation is anticipated to persist, to 2030, as challenges such as the conflict between Israel and Palestine add to the complexity. The labour market response to these crises comprises a complex interplay of factors. The impact of persistent inflation on wage levels and real incomes could lead to reduced purchasing power for workers, triggering demands for higher wages. As the cost of living rises, maintaining a balanced labour market and social cohesion becomes increasingly difficult. The permacrisis may deepen economic disparities between EURES countries, especially affecting regions heavily reliant on tourism or those closer to conflict zones.

The scenario also embeds the shift towards **remote and flexible work arrangements**. This flexibility, coupled with a high degree of adaptability, becomes standard for both employers and jobseekers. Companies are expected to adapt to changing jobseekers' preferences, leading to more flexible employment contracts and an improved work-life balance. The growth of the platform economy further diversifies employment options. However, increased flexibility, whether contractual or spatial, may raise concerns about diminished working conditions (due to uncertainty and instability of job prospects) and reduced employer attractiveness. The labour market will face the challenge of finding a balance that satisfies both employer needs for adaptability and employee demands for job security and favourable working conditions. **Jobseekers' employment preferences** will be influenced by climate change, technology, the housing market, and the extent to which education options have kept pace with skills demand.

Climate change affects lifestyle preferences (e.g., housing location) and economic focus, creates new business opportunities and impacts on the demand for certain skills. Europe's **success in climate adaptation** is a 'double-edged sword'. While certain regions demonstrate resilience through adaptive measures, others face intensified challenges, revealing disparities in preparedness. 'Green sectors' focused on climate resilience experience growth, providing opportunities for skilled workers and contributing to economic stability in regions investing in adaptation.

The rise of **technology and automation** is likely to lead to **labour market disparities**, favouring those with digital skills. The widespread use of AI, especially generative pre-trained transformer (GPT) language models, has an uncertain but probably very significant impact upon employment levels and working conditions. By 2030, there is a risk that AI, particularly GPTs, could constrain employment growth in Europe, leading to potential job losses and increased demands on public employment services.

The overall impact on the **housing market** is **limited availability and increased unaffordability**, with a particular impact upon certain population groups and in specific regions. The lack of affordable accommodation is most pronounced in metropolitan areas, experiencing a growing concentration of skilled workers, and in urban centres influenced by the 'brain drain' from less economically viable regions. The housing crisis affects related sectors including construction and real estate.

The **education system** adapts slowly due to the permacrisis, with economic and social changes outpacing its ability to react. There is a gradual shift towards more demand-led education and training systems, but variations persist across EURES countries.

The labour market's response to these challenges includes **companies adapting practices that enhance job quality** and working conditions, including hybrid work models with varying degrees of flexibility. In some cases, employees are required to attend the office two to three times per week, while at the other end of the spectrum companies allow employees to choose their working schedule and location, therefore enabling teams to 'communicate asynchronously' and 'work autonomously'. Other companies allow their staff to work outside their designated home base for short periods of time each year. Employers compete for labour based on the quality of employment they provide, and labour retention improves as good working conditions strengthen the employer-employee bond.

By 2030, an increase in actors connecting jobseekers and employers is anticipated. The private sector's ability to collect and process labour market information as part of a broader employment services ecosystem may enhance their role.

Demographic dynamics also require employment services to adapt to the changing circumstances. As the workforce continues to shrink due to a decreasing working-age population, there is a **growing demand for third-country nationals** with permission to work in Europe. Employment services increasingly focus on this group. The role of private employment service providers is gaining prominence as part of the development of a broad data-driven ecosystem of linked employment service providers. The development of an interconnected ecosystem and mixed economy of employment support provision may marginalise some PES, left serving more vulnerable groups and facing reduced budgets, impacting upon their ability to serve effectively and secure necessary investment to keep pace with ongoing technological developments. Although automated service delivery will increase significantly as a proportion of overall customer transactions, the younger cohorts and those farthest from the labour market experiencing economic and social exclusion will still require human support.

Notwithstanding the cost efficiency of **automated services**, accurate profiling systems and well-designed outreach will be needed to ensure that the needs of the digitally excluded are met. Widespread automation introduces further opportunities for fraud and system abuse which will require investment in investigative tools supported by necessary regulatory measures. As automation replaces certain jobs, workers may find themselves unemployed or with limited employment opportunities. This can create financial stress and lead some individuals to seek alternative means of income, including engaging in informal or illegal activities. Similarly, displaced workers may not have the necessary qualifications for the new roles created by technology. The skills mismatch can result in a segment of the workforce being left without legitimate employment options, potentially pushing them toward the informal or illegal job market. Downsides of automation that need to be addressed include growing income inequality, pressures from the platform economy and freelance work facilitated by digital platforms, challenges introduced by remote work and reduced job security, with more workers facing temporary or part-time employment.

Expected impact on labour market imbalances

New shortages emerge in sectors experiencing enhanced productivity due to technological change. An example is the development of technology capable of handling vast amounts of data which makes new business propositions viable resulting in a demand for new specialised skills. This emerging demand, however, creates new mismatches as some workers may lack increasingly in-demand transversal competences.

The impact of AI on the labour market is not uniform; while it creates surpluses in certain sectors, some low-qualified and manual labour remains essential. AI has led to **shortages** particularly in **high-skilled IT jobs**; however, it has also caused **redundancies**, particularly in **production**, requiring many workers to undergo reskilling and participate in lifelong learning. However, workers, jobseekers, and VET systems have been generally slow to adapt to the new environment exacerbated by various crises and systemic changes to the labour market. The slow progress in reskilling and adapting to new technologies can result in inequalities, where those who can adapt benefit while others face difficulties in maintaining labour market attachment. The adaptability of the workforce is a critical factor in mitigating these impacts. Some individuals can successfully shift to new roles and locations, capitalising on emerging opportunities. On the other hand, there is a pool of inactive people who face challenges in labour market integration contributing to imbalances.

Climate-related changes are also influencing job preferences, compelling employers to adapt to retain their workforce. Firstly, as climate-related concerns continue to gain prominence, job preferences are likely to evolve, with more individuals seeking opportunities that align with their values and contribute to a sustainable and resilient future. The growing awareness of climate change and environmental degradation leads to an **increased demand for 'green jobs'**, and a preference for sustainable companies. Jobseekers may be drawn to careers in 'green technology', sustainable design, and innovations aimed at reducing carbon footprints. This includes roles in clean technology, smart cities, and climate data analysis. Secondly, climate-related disruption reshapes job preferences by leading individuals to migrate away from climate-vulnerable regions and to look for opportunities in resilient locations less prone to adverse extreme weather events. Similarly, workers prioritise jobs in climate-resilient industries, such as renewable energy, disaster response and recovery. As a result, **labour shortages emerge in climate-vulnerable regions and industries**. To address shortages, employers are recruiting increasing numbers of third-country nationals with permission to work in Europe, adding a further layer to the already intricate labour market dynamics.

The restructuring of industries due to crises results in the closure of businesses, leading to surpluses of unemployed workers. However, proactive reskilling measures can enable these workers to transition into other roles. As society becomes wealthier and preferences change, there is an **increased demand for service jobs** that cannot easily be automated. This shift in demand contributes to imbalances in the labour market, where adaptable individuals thrive, while others face challenges in securing quality employment.

Expected impact on EURES services

The challenges facing EURES in the evolving landscape of the European labour market require a strategic and adaptive approach to ensure that the network remains effective in addressing imbalances and facilitating labour mobility. The competition between countries for skilled workers necessitates quick and flexible adaptations to the changing demands of the labour market. EURES could **strategically focus on growing sectors** (e.g., pharmaceuticals) where there is a shortage of workers. In this regard, EURES could facilitate geographical mobility by **informing employers in the receiving countries about workforce availability** in the country of origin including their need for initial/basic training. In turn, PES in receiving countries could be involved in providing support for employers with information on what training offers are available.

Utilising the existing **Targeted Mobility Scheme (TMS)** or developing new programmes within the EURES mandate that support individuals in moving to these growth areas can help to bridge skill gaps and address shortages in specific sectors. The application of TMS handling procedures could also be made less bureaucratic in the future.

One crucial aspect is **assisting jobseekers in clearly identifying their skills** and how these can be applied in the evolving labour market. EURES, in **cooperation with other European mobility services**, should play a pivotal role in helping individuals transfer their skills to different occupations and sectors, fostering adaptability in the workforce. This includes particularly **supporting workers who struggle to move or adapt due to technological advancements** or changing skill needs, and may also form a larger proportion of EURES clients as private employment services gain ground and become more attractive to 'better off' jobseekers due to more innovative service provision (whilst PES innovation is constrained by limited public budgets). The flourishing of LinkedIn and similar platforms offering 'easy application' options also raise the need for EURES **cooperation with private providers**. The risk of employers receiving an excessive number of irrelevant applications underscores the need for a first check or filter, either through human input or utilising AI. EURES can explore cooperation with private providers and develop new functions including **'task-based CVs'** to differentiate its services. Furthermore, EURES Advisers can further support jobseekers to fill in the required, accurate information for improved job matching.

Encouraging intra-EU geographic and occupational mobility is essential. EURES should play an active role in encouraging adaptability among workers, promoting the benefits of intra-EU labour mobility and taking advantage of already existing initiatives, such as group counselling or information sessions for the newly registered unemployed, and information activities in schools for final grade students. As competition intensifies between countries, EURES needs to maintain its relevance by addressing imbalances and fostering collaboration.

PES and EURES face the challenge of an increased demand from employers for third-country nationals with permission to work in Europe, while simultaneously a pool of unemployed European individuals remains. This requires a delicate balance and proactive measures to ensure fair opportunities for both groups. Given the changing dynamics of the labour market, EURES needs to be more creative in attracting jobseekers. In a tight jobseekers' market, the focus should be on meeting the needs and expectations of individuals seeking employment.

To remain attractive for employers, EURES should consider adapting its **portal**, to make it as **user-friendly** as possible and ensuring that job vacancies are easily accessible. Vacancies should provide up-to-date and clear information, including on whether employers are interested in candidates from other countries. This is particularly important as private employment services may offer similar but less bureaucratic services. Similarly, as private employment services are increasingly becoming innovation/digital leaders, investments in the portal are crucial so that it does not become outdated and unattractive.

EURES can extend its **support** for mobile workers beyond traditional matching services, **to include practical aspects** such as assisting with housing-related matters. These may also include assistance in identifying sources of temporary financial aid for relocation or language courses in collaboration with national PES. Given the permacrisis, EURES Advisers might also need to develop into 'personal crisis managers', providing more holistic assistance for jobseekers and employers advising on a wide range of topics and issues.

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