

McKinsey&Company

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strategy x economics



A demand-driven approach to addressing youth employment in Australia

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Background

McKinsey & Company, the Macquarie Group Foundation and AlphaBeta worked together in late 2017 to understand the employment challenges facing young Australians, and potential initiatives that could address these challenges.

The youth unemployment challenge

Unemployment is a growing challenge for Australia, particularly for Australia's youth. Youth unemployment in Australia is at 12.7%, up from 11.4% five years ago¹.

- Within Australia's youth age group (15-29), there are ~450,000 + youth who are not in education, employment or training² (NEET).
- Groups of young people who have particularly high NEET rates or are at higher risk of long-term welfare dependence include those who did not finish high school, young parents, and young people with caring responsibilities.
- Changes in the employment environment in Australia are complicating the landscape for job seekers. The types of skills needed for new jobs are changing, and more than 20% of Australian work activities are at risk of displacement by automation by 2030³.



12.7%

Youth unemployment in Australia¹



~450,000

Youth who are not in education, employment or training² (NEET)



Over 20%

of Australian work activities are at risk of displacement by automation by 2030³

Furthermore, the estimated total cost to the taxpayer of the NEET population spending a lifetime on welfare is around ~\$383 billion. Ensuring young people are engaged in education and employment reduces this welfare burden.

1 OECD Labour Force Statistics 2011-2016

2 Labour Force Statistics 2011-16, Household, Income and Labour Dynamics in Australia (HILDA) survey 2015

3 McKinsey Global Institute 2017

Youth cohorts and NEET - statistics

Among youth, young parents, carers, and those who did not finish high school are more likely to be NEET and have higher average welfare costs, meaning initiatives that focus on these segments could have outsized benefits.

Referring to the graph below, note that where young people fall into multiple cohorts, they were allocated to one of the groups using the following prioritisation: 1) young parents, 2) young carers, 3) did not finish high school, 4) finished high school only, 5) less than 6 month work experience and 6) parents did not finish high school.

■ More favorable compared to Australian average ■ Less favorable compared to Australian average

	Cohorts ^{1,2}	NEET population	NEET share of population %	Approximate lifetime non-aged pension welfare/ NEET ³
Youth (<30)	Young parents	143	38%	~\$190k
	<6 month work experience	101	7%	~\$160k
	Did not finish high school	97	33%	~\$210k
	Finished high school	75	6%	~\$130k
	Young carers	12	49%	~\$160k
	Parents did not finish high school ⁴	6	14%	~\$160k
	Other youth	13	21%	~\$10k
	Total youth		448	13%
Over 30		2,084	21%	~\$145k
Total		2,533	19%	~\$150k

Source: 2015 HILDA data; Department of Social Services Baseline Valuations Report 30 June 2015

1 Order of cohort allocation where there are overlaps: 1) young parents, 2) young carers, 3) did not finish high school, 4) finished high school only, 5) <6 month work experience, 6) parents did not finish high school

2 15-19 year old cohort was adjusted due to HILDA data limitations. HILDA only looks at post high school education as a flag. For those who are currently in high school, the population would be counted as NEET based on HILDA data. To adjust for this limitation, the population 15-19 that did not finish high school was excluded from the data analysis.

3 Lifetime welfare per NEET estimated based on multiple of annual welfare received. Multiple derived from DSS Baseline valuation report for Working Age Income Support, parenting payment, and carer payment recipients, and adjusted upward for youth segment by 14% based on comparison between youth and other cohorts. Includes all welfare received except Aged Pension.

4 Other cohorts captured 89% of youth where parents did not finish high school.

Our approach

Our research took a demand-led approach, seeking to identify suitable jobs for young people within growing sectors.

We examined employment and job trends across multiple sectors and roles within Australia, to identify areas of high potential for youth.

To gain richer insights into the current challenges, we grouped data on young people in Australia into sub-groups of young parents, young people with carer responsibilities, young people with varying levels of high school completion, and young people with varying levels of past work experience. We used these groupings to identify potential higher risk groups, and to better identify which job opportunities can match with youth employment needs.

We also analysed the existing employment services landscape in Australia to identify opportunities to better match youth to jobs - while the employment services landscape has multiple players in Australia, there is not yet a focus on demand-driven programs at scale to move unemployed and non-participating people into employment.

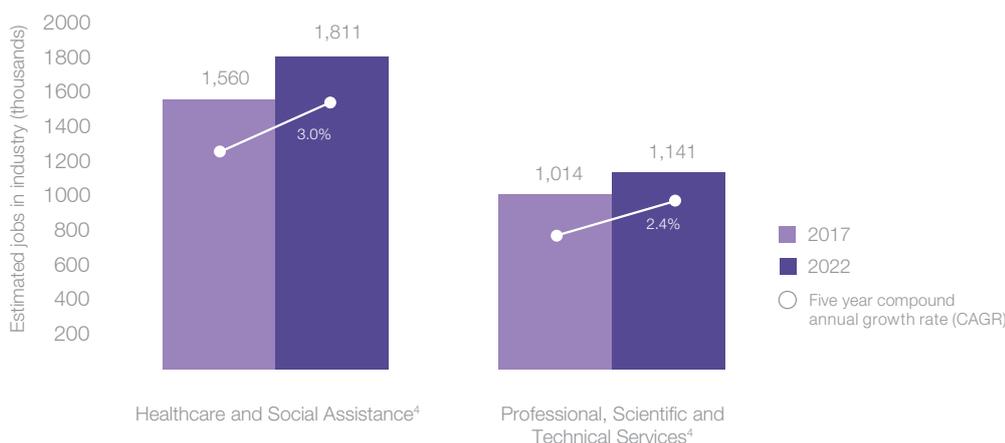
Key findings: the youth employment opportunity

Our research identified opportunities within the Australian labour market that could have an impact on the youth employment challenge:

- employers are demanding more skilled workers in growing areas of the economy, and are concerned about the skill gaps in their industries
- there are growing job opportunities across several sectors in Australia – the fastest growing industries are healthcare and social assistance, and professional and technical services
- the care industry presents a particular opportunity for youth – 80,000+ new carer roles are anticipated as the NDIS scales, with increased opportunities for young people in these roles.

Fastest growing sectors

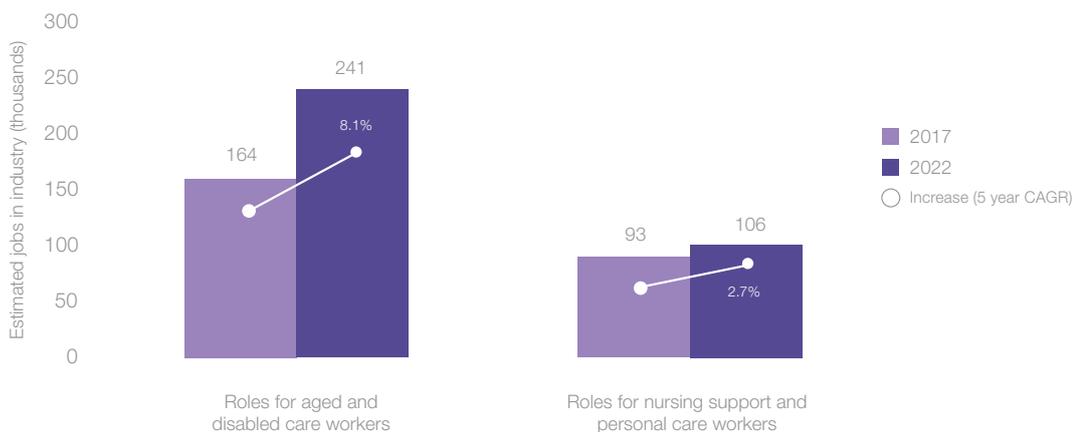
Healthcare and social assistance is the fastest growing sector in Australia in terms of jobs, followed by professional and technical services.



4: Australian Department of Employment projection (as at May 2017)

High potential roles were identified through analysing the entry skill levels required, the size of the opportunity (number of roles), growth rate, industry size and risk of automation. Care and technology roles emerged as particular high potential opportunities.

Carer roles present an employment opportunity for youth in Australia, with demand for aged and disabled care workers, nursing support and personal care workers all set to rise.



Source: Australian Department of Employment projection (as at May 2017)

Youth from multiple cohorts could be a good fit for roles in care, and in particular some of the groups at risk of higher NEET rates (e.g. young parents, young people with carer responsibilities), due to the suitability of hours.

In technology, growth in Australia’s digital economy is resulting in unmet demand for some technical skills, for example in software and application programming. These growing roles could be suitable for youth with interests in the area and requisite levels of analytical skills.

What’s next?

Youth unemployment is a growing challenge for Australia. Our research identified opportunities within the Australian labour market that could have an impact on the youth employment challenge. A demand-driven approach to addressing employment gaps in Australia could have a significant impact on lowering the rates of youth unemployment. We also recognise that an effective solution is one where supply meets demand and therefore we must ensure a solution factors in both sides of the equation.

We are committed to continuing our work in this field and will publish further information in due course. If you would like to get in touch to discuss this research, please contact us.

About McKinsey & Company

McKinsey & Company is a global management consulting firm that serves a broad mix of private, public and social sector institutions. We are committed to social impact through the way we run our firm. We address societal issues in a range of ways, including through client work and pro bono projects, by developing and sharing knowledge and through various efforts that our people lead.

About the Macquarie Group Foundation

The Macquarie Group Foundation provides support to community organisations globally each year through financial support, volunteering and skills sharing, predominantly in the locations in which Macquarie operates. Our work is significantly influenced by the activities of Macquarie staff, with a focus on capacity building within the community sector and increasing social and economic mobility.

About AlphaBeta

AlphaBeta is a strategy advisory business serving clients across Australia and Asia from offices in Singapore, Canberra and Sydney. Our team of advisors are experts in both strategy and economics who partner with clients from the private, public, and not-for-profit sectors to identify the forces shaping their markets and develop practical plans to create prosperity and wellbeing.



Get in touch

McKinsey & Company: mckinsey.com/au/contact-us

AlphaBeta: sydney@alphabeta.com

Macquarie Group Foundation: foundation@macquarie.com

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