Leading House Short Note, May 8, 2020

The impact of the COVID-19 crisis on the provision of apprenticeships in Switzerland

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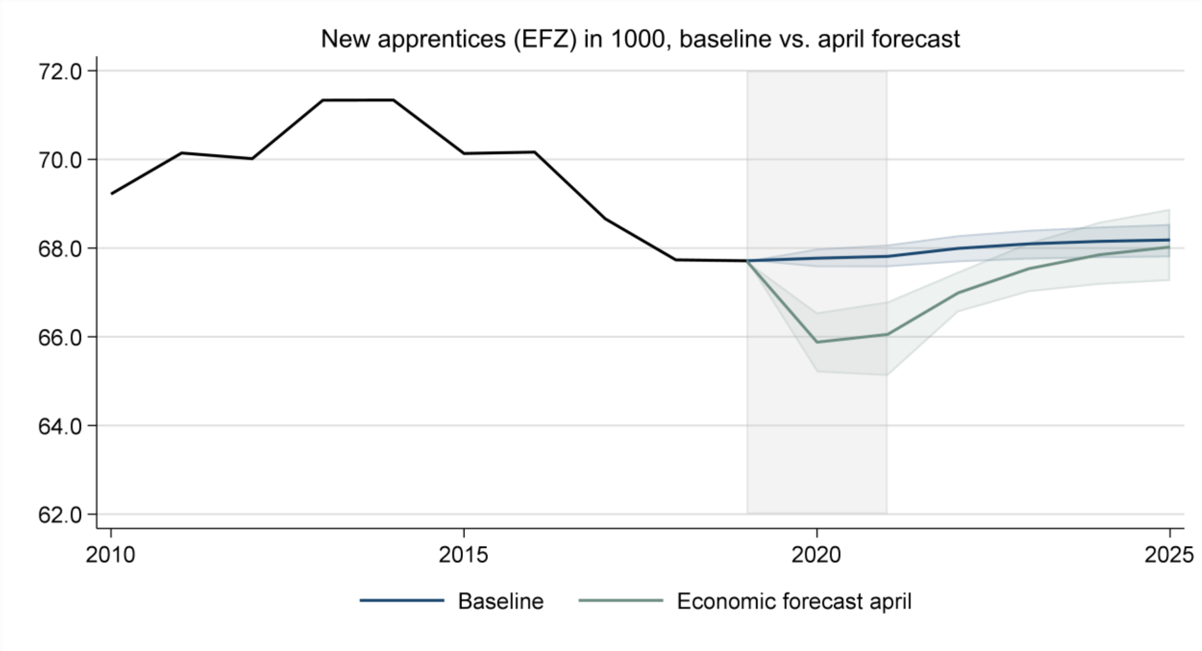
- Due to its closeness to the economy, company-based basic vocational training (apprenticeship training) has various advantages, both in terms of the quality of the training and the allocation of training seekers to occupations and companies. However, being embedded in the economy has the disadvantage that the supply of apprenticeship places is sensitive to economic cycles. In the past, Swiss VET/PET has proved quite resistant to economic cycles, but it should be noted that since the oil crisis at the beginning of the 1970s, Switzerland has never been in such a deep recession as it is now.

- An evaluation of the number of new apprenticeships allocated for the period 1987-2016 (Lüthi & Wolter, 2020) shows that the number of new apprenticeships is sensitive to both economic growth and the development of unemployment. These calculations now serve as a basis for estimating the effect of the COVID-19 crisis on the Swiss apprenticeship market this year and in the following years. The reference forecast (baseline) is based on the December economic forecast of the State Secretariat for Economic Affairs (Seco) and shows the expected development of apprenticeship places without the COVID-19 crisis. The current economic forecast of 28 April 2020 is used to illustrate the current expected development. The effect of the COVID-19 crisis thus results from the difference between the two forecasts.

- The economic scenarios refer to the years 2020/21, and the developments in the years 2022-25 model the dynamic long-term consequences of the economic development between 2020/21 without additional assumptions about the economic development in this phase. The 95% confidence intervals (in Figure 1) reflect the uncertainties from the model forecast and not the uncertainty regarding the economic forecast. The uncertainty of the economic forecast is shown in Figure 2.

Figure 1: Development of the number of new apprenticeship (EFZ) places based on the economic forecasts of the Seco (December 2019 and April 2020)

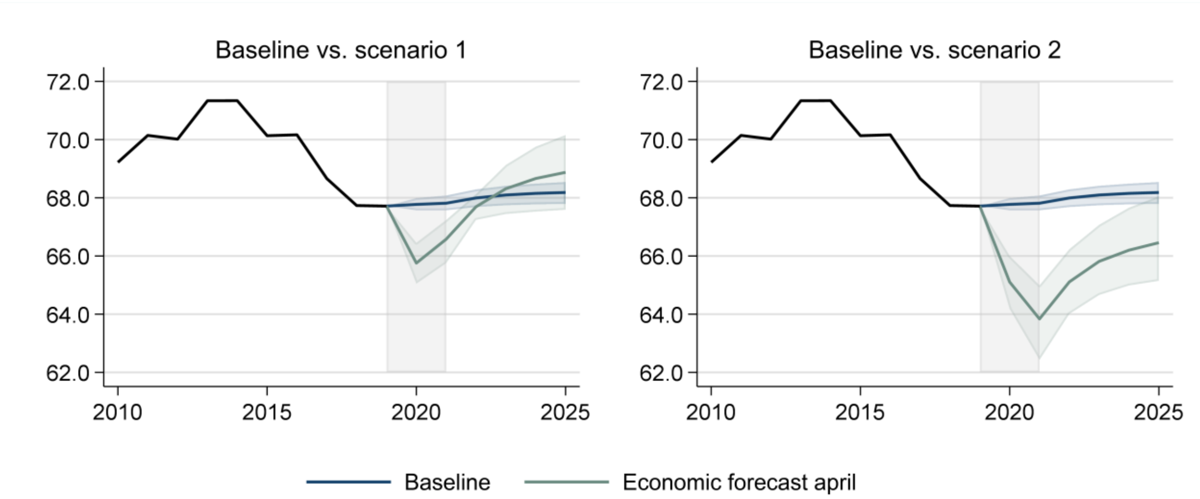


- If Seco's main scenario is applied, the model predicts that it will take until 2025 to overcome the effects of the economic slump of 2020 and the associated rise in unemployment on the number of new apprenticeship contracts to be awarded. Only in 2025 the number of apprenticeship contracts signed will return to the level that would have occurred without the COVID-19 crisis. The reduction in the number of apprenticeship contracts signed would cumulate over the five years under consideration to around 20% of the apprenticeship contracts that would otherwise be signed in one year.

- The calculations refer to the 3 and 4 year apprenticeships (EFZ). For the two-year apprenticeships with a certificate (EBA), no separate analyses regarding the sensitivity to economic cycles could be made. Assuming that these apprenticeship places are no less sensitive to the economic cycle than the 3 to 4-year apprenticeships, the (absolute) overall effects would increase by a further 10 per cent.

- The scenarios presented here are based on the assumption that companies behave in a similar way as in previous economic cycles. The outcomes of our forecasts are therefore subject to uncertainties, which are mainly due to the following factors. Firstly, even the gloomy forecasts of economic development and unemployment used here may prove to be too optimistic. On April 23, 2020, Seco published two further economic scenarios, which forecast a somewhat stronger (scenario 1) and a much more severe (scenario 2) slump in GDP. However, in contrast to the base scenario, scenario 1 expects a year-on-year decline in unemployment in 2021, while scenario 2 expects unemployment to continue to rise in 2021. This point in particular leads in scenario 2 to a significantly stronger and longer negative impact on the apprenticeship market, whereas in scenario 1 a slight countermovement can be expected after 2022. The reduction in the number of apprenticeship contracts signed would cumulate under Scenario 2 over the five years under consideration to around a third of the apprenticeship contracts that would otherwise be signed in one year.

Figure 2: Development of the number of new apprenticeship places (EFZ) based on the negative scenarios 1 and 2 of Seco's April 2020 economic forecasts



- Secondly, it is possible that the slump will be more severe this year because some of the companies that have already signed apprenticeship contracts will have gone bankrupt by the time the apprenticeship starts in August 2020. Thirdly, for the same reason it is possible that the compensatory effect observed in the past will not occur. This is because in the past some of the firms that had waived the allocation of training places due to the economic situation had created more training places in the following period. However, if such companies are no longer on the market next year due to bankruptcies, there will be no such compensatory effect. Fourthly, it should be pointed out that previous economic slumps were never characterised by this high degree of simultaneous impact on many sectors of the economy. The usual rather slower spread of the crisis had a dampening effect because not all sectors and companies adjusted their allocation of training places at the same time. This dampening effect has been eliminated in the current crisis. In addition, it is hitting the training place market at a very unfavourable moment, namely at a phase in which there are still a great many training place seekers on the market. Fifthly, the demographic trend is also unfavourable: For example, the number of school leavers is currently on the rise again after a prolonged period of decline. This was different during the economic crisis in 2008, when the fact that fewer people were seeking a training place helped to ensure that most of them did find a training place at that time.

- Who's going to be hit particularly hard? In the short term, three categories of people looking for an apprenticeship are particularly affected: Firstly, school leavers at the end of compulsory schooling are hit hardest because they are often still looking for a training place. At the time the crisis broke out, the training places that had already been allocated were predominantly filled by persons who were looking for a training place after a bridge or interim year, while half of those who left compulsory school this summer were still looking for a training place at that time (assumption based on the Apprenticeship Barometer 2019). Secondly, youths with academic shortcomings are more affected because they too spend longer looking for an apprenticeship. Finally, young people who are looking for an apprenticeship in those sectors that are particularly affected by the economic crisis and where the number of bankruptcies will be highest, such as the hotel and restaurant industry or tourism-related businesses in general will also be affected more.

- Finally, it should be noted that the situation of people looking for an apprenticeship is also linked to that of apprenticeship graduates. Usually, the majority of apprenticeship graduates change employers after completing their apprenticeship. This is particularly true for those who have done their training in SMEs. In the summer, the pressure on the companies providing training will now be increased in order to keep their apprentices employed, as there will be a lack of vacancies on the external labour market. However, SMEs are often in the situation that they have to decide between keeping a trainee on and hiring a new one, especially in a period of low order intake and low workload. Although it can be assumed that the majority of training companies will decide to hire a new learner rather than to keep a learner on, the latter will also be the case, which will have a further dampening effect on the supply of training places.

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