Executive summary

International Labour Organization

GLOBAL EMPLOYMENT TRENDS 2013

Recovering from a second jobs dip

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This Global Employment Trends report for 2013 is a special edition, warranted by the resurgence of the crisis in 2012. The year 2011 saw a tapering off of the recovery, followed by a dip in both growth and employment in 2012. Unemployment increased by a further 4 million over the course of 2012.

The report examines the crisis in labour markets of both advanced economies and developing economies. The epicentre of the crisis has been the advanced economies, accounting for half of the total increase in unemployment of 28 million since the onset of the crisis. But the pronounced double dip in the advanced economies has had significant spillovers into the labour markets of developing economies as well. A quarter of the increase of 4 million in global unemployment in 2012 has been in the advanced economies, while three quarters has been in other regions, with marked effects in East Asia, South Asia and Sub-Saharan Africa.

The report estimates the quantitative and qualitative indicators of global and regional labour markets and discusses the macroeconomic factors affecting the labour markets in order to explore possible policy responses. In estimating labour market indicators, the report uses four key analytical techniques: 1) an ILO hiring uncertainty index indicating persisting weaknesses; 2) an extension of ILO estimates of the working poor to a full income decomposition of employment to give income classes and their correlation to investment, growth and generation of quality jobs; 3) a breakdown of growth factors which differentiates between within-sector productivity growth, cross-sector productivity growth, and labour inputs, all of which have significant implications for growth patterns in advanced and developing economies; and 4) a Beveridge curve which allows some distinction between cyclical and structural factors affecting the labour market.

In examining the impact of macroeconomic developments on labour markets, the report looks at negative feedback loops from households, firms, capital markets and public budgets that have weakened labour markets. It finds that macro imbalances have been passed on to the labour market to a significant degree. Weakened by faltering aggregate demand, the labour market has been further hit by fiscal austerity programmes in a number of countries, which often involved direct cutbacks in employment and wages, directly impacting labour markets. Far from the anti-cyclical response to the initial crisis in 2009 and 2010, the policy reaction has been pro-cyclical in many cases in 2011 and 2012, leading to the double dip reported here.

The final chapter of this special edition urges a policy rethink in order to achieve a more sustained recovery in 2013 and beyond.

Global labour markets are worsening again

In the fifth year after the outbreak of the global financial crisis, global growth has decelerated and unemployment has started to increase again, leaving an accumulated total of some 197 million people without a job in 2012. Moreover, some 39 million people have dropped out of the labour market as job prospects proved unattainable, opening a 67 million global jobs gap since 2007. Despite a moderate pick-up in output growth expected for 2013–14, the unemployment rate is set to increase again and the number of unemployed worldwide is projected to rise by 5.1 million in 2013, to more than 202 million in 2013 and by another 3 million in 2014. A quarter of the increase of 4 million in global unemployment in 2012 has been in the advanced economies, while three quarters has been in other regions, with marked effects in East Asia, South Asia and Sub-Saharan Africa. Those regions that have managed to prevent a further increase in unemployment often have experienced a worsening in job quality, as vulnerable employment and the number of workers living below or very near the poverty line increased.

New recession conditions in Europe have been spilling over globally

Lower economic activity and job growth even in countries that had initially escaped the second wave of the crisis constitutes a spillover effect of the weak growth in advanced economies in 2012, in particular recession conditions in Europe. So far, the main transmission mechanism of global spillovers has been through international trade, but regions such as Latin America and the Caribbean have also suffered from increased volatility of international capital flows that have forced them to quickly adjust their macroeconomic policy in order to dampen the effects on exchange rates, thereby weakening their domestic economies.

Growth decelerated by 1.4 percentage points in East Asia, largely due to a notable slowdown in China, where growth slowed to 7.8 per cent – the slowest rate of growth since 1999. In South Asia, where growth in India slowed sharply to 4.9 per cent, the lowest rate of growth in the country in a decade, the regional GDP growth rate decelerated by 1.6 percentage points. The regions of Latin America and the Caribbean and the Middle East also saw a substantial deceleration.

Policy incoherence has led to heightened uncertainty, preventing stronger investment and faster job creation

Incoherence between monetary and fiscal policies adopted in different countries and a piecemeal approach to financial sector and sovereign debt problems, in particular in the euro area, have led to uncertainty weighing on the global outlook. Investment has not yet recovered to pre-crisis levels in many countries. The indecision of policy makers in several countries has led to uncertainty about future conditions and reinforced corporate tendencies to increase cash holdings or pay dividends rather than expand capacity and hire new workers.

The continuing nature of the crisis has worsened labour market mismatches, intensifying downside labour market risks

The length and depth of the labour market crisis is worsening labour market mismatch, contributing to extended spells of unemployment. As the crisis spreads through international trade, occupations concentrated in exporting industries are particularly vulnerable and in several countries their importance in total employment has declined by significant margins. New jobs that become available often require competences that the unemployed do not possess. Such skill and occupational mismatches will make the labour market react more slowly to any acceleration in activity over the medium run, unless supporting policies to re-skill and activate current jobseekers are enhanced.

Job creation rates are particularly low, as typically happens after a financial crisis

The origins of the crisis in the financial sector weigh on job creation. Following banking crises such as the current one, more jobs are destroyed and fewer jobs created as pre-crisis misallocation and over-investment require time to be corrected. In advanced economies job destruction rates have increased again after a short-lived respite in 2010, indicating that further job restructuring is likely before a stronger rebound can be expected in labour markets. Other regions are also still experiencing higher-than-average job destruction rates.

The jobs crisis pushes more and more women and men out of the labour market

Labour force participation has fallen dramatically, in particular in advanced economies, masking the true extent of the jobs crisis. The problem is particularly severe in the developed economies and the EU region where the labour force participation rate declined by close to one percentage point and is expected to recede further as long-term unemployment and a weak economic outlook discourages people from staying in the labour market. As a consequence, the employment-to-population ratio has fallen sharply – in some cases 4 percentage points or more – and has not yet recovered even in cases where the unemployment rate has started to decline.

Youth remain particularly affected by the crisis

Young people remain particularly stricken by the crisis. Currently, some 73.8 million young people are unemployed globally and the slowdown in economic activity is likely to push another half million into unemployment by 2014. The youth unemployment rate – which had already increased to 12.6 per cent in 2012 – is expected to increase to 12.9 per cent by 2017. The crisis has dramatically diminished the labour market prospects for young people, as many experience long-term unemployment right from the start of their labour market entry, a situation that was never observed during earlier cyclical downturns.

Currently, some 35 per cent of all young unemployed have been out of a job for six months or longer in advanced economies, up from 28.5 per cent in 2007. As a consequence, an increasing number of young people have become discouraged and have left the labour market. Among European countries where this problem is particularly severe, some 12.7 per cent of all young people are currently neither employed nor in education or training, a rate that is almost two percentage points higher than prior to the crisis. Such long spells of unemployment and discouragement early on in a person's career also damage long-term prospects, as professional and social skills erode and valuable on-the-job experience is not built up.

Weak labour markets holding back private consumption and economic growth

Income growth has come under pressure from rising unemployment, putting downward pressure on real wages in many advanced economies, thereby lowering the support that private consumption could give to economic activity. Sources of growth, therefore, need to be complemented from other areas, in particular stronger growth in private investment but also government consumption, at least in countries where fiscal space is available.

Despite a recovery over the medium run, unemployment remains elevated

Over the medium term, the global economy is expected by many commentators to recover, but growth will not be strong enough to bring down unemployment quickly. Even with an acceleration of growth, the global unemployment rate is expected to remain at 6 per cent up to 2017, not far from its peak level in 2009. At the same time, the global number of unemployed is expected to rise further to some 210.6 million over the next five years.

Labour productivity growth has slowed sharply, preventing further gains in living standards

Another finding of this report is that labour productivity growth has slowed sharply in 2012. After an initial rebound following the 2009 recession, weak investment and a highly uncertain global outlook have put a brake on further increases in productivity. Particularly worrying in this respect is the trend of a slowdown in labour productivity growth observed in certain regions such as Latin America and the Caribbean, suggesting that the gains in the quality of employment observed in these regions over recent years might be difficult to sustain.

Structural change has slowed down in emerging and developing economies, damaging engines of growth

Structural change necessary for emerging and developing economies to improve their standards of living has also slowed during the crisis. In particular the tepid recovery in global investment prevents faster reallocation of resources towards more productive uses in developing economies. Prior to the crisis, many developing countries experienced rapid reallocation of workers from low- to higher productivity activities across broad economic sectors. Such structural change is an important driver of labour market improvements. In the past, it has helped reduce vulnerable employment and working poverty. Compared to earlier years, however, structural change has lost momentum during the crisis, largely because jobs are no longer moving out of agriculture as fast as before and agricultural productivity growth remains low. Forecasts indicate that Asia and Sub-Saharan Africa are more likely to return to their pre-crisis path of structural change than are Latin America and the Caribbean and Central and South-Eastern Europe. The Middle East and North African economies are expected to remain among the least dynamic economies in terms of sectoral re-allocation of labour.

Further progress in reducing working poverty and vulnerable employment requires higher productivity growth and faster structural change

Despite the slowdown in structural change, the rate of working poverty has continued to decrease, but at a slower pace than before the crisis. Currently some 397 million workers are living in extreme poverty; an additional 472 million workers cannot address their basic needs on a regular basis. As those countries with particularly high rates of working poverty continue to experience faster growth than the world average, the rate of working poverty is expected to continue to decline. However, as they are also growing faster demographically, the absolute number of working poor is expected to increase in some regions unless faster economic growth returns.

Vulnerable employment – covering own-account and contributing family workers – is expected to decline but at a slower rate. Informal employment – one specific form of vulnerable employment – has started to increase again, especially in certain transition economies in Eastern Europe and Central Asia.

A new consumer class is emerging, but is not yet large enough to constitute an independent engine of growth

There are signs of an emerging consumer working class in developing countries, potentially substituting for some of the consumption slowdown in advanced economies. On the back of structural change and the movement of workers out of agriculture and into higher productivity sectors, working poverty has declined and some countries have seen the emergence of a working middle class, which has now surpassed 40 per cent of the developing world's workforce. With the crisis, however, progress in poverty reduction has slowed and could adversely affect growth of the emerging middle class. This will impact negatively on the capacity for developing economies to play a stronger role in supporting global economic activity and offer alternative engines of growth.

Policy makers need to take additional steps to recover from the second jobs dip

The worsening of macroeconomic and labour market conditions in many countries and the risk of the jobs crisis becoming entrenched calls for additional policy action. Some promising areas for action include:

- **Tackle uncertainty to increase investment and job creation.** Particularly in developed countries, policy makers need to address policy uncertainty. This includes providing more coherent and predictable policy plans; measures to increase disposable incomes to foster stronger consumption; prompt implementation of financial reforms to restore the banking sector to its proper function of supporting investment and providing credit, in particular to SMEs, the key engines of job creation. It also requires credible exit strategies for those countries particularly affected by the debt crisis, for instance by rescheduling sovereign debt and easing financial burdens of private households.
- **Coordinate stimulus for global demand and employment creation.** Austerity measures and uncoordinated attempts to promote competitiveness in several European countries have increased the risk of a deflationary spiral of lower wages, weaker consumption and faltering global demand. In light of the global jobs and consumption deficit, countries should adapt the pace of their fiscal consolidation to the underlying strength of the economy and recognise that short-term stimulus may be needed to grow out of debt burdens. Global policy makers and coordination bodies such as the G20 and EU should make stronger efforts to avoid beggar-thy-neighbour policies, which are occurring through wage and social protection reductions in Europe as well as through trade and monetary measures in other countries. Policy actions need to be better coordinated globally in order to rebalance growth and foster multipolar growth engines. The growing purchasing power of the emerging middle class in many developing countries could help bring about such a development.
- **Address labour market mismatch and promote structural change.** The bulk of the unempoyment crisis is cyclical. However, policy makers also need to tackle structural problems that intensified with the crisis, such as skill and occupational mismatches. Weak and unsteady recovery has worsened these problems in some countries and this is likely to put a brake on future recovery in the labour market. Governments should step up their efforts to support skill and retraining activities to address the gaps between demand and supply of work skills and qualifications and to address long-term unemployment. Re-activation and job counselling measures should be enhanced. The global crisis has lowered the pace of structural change in many developing regions, calling for policies to improve productivity and facilitate workers' mobility across sectors. Where employment in agriculture is particularly significant, governments need to pursue measures to accelerate productivity growth in that sector and diversify the work and investment opportunities in rural areas.
- **Increase efforts to promote youth employment – with a special focus on long-term unemployment for youth.** High and rising youth unemployment rates have spurred concerns over a "lost generation" with long-term adverse consequences both for young people themselves and the economy more broadly. To address these challenges, policy makers should promote youth employment. The ILO comprehensive guidance on how to do this is

contained in the Call for Action on the Youth Employment Crisis agreed by governments, workers and employers at the June, 2012 International Labour Conference. Besides pro-employment macroeconomic policies and active labour market policies, three specific types of interventions are considered particularly relevant: i) enhancing young people's employability through measures such as better links between the world of education and training and the world of work, including apprenticeships; improving young people's access to information on career opportunities, support for job search, and youth employment guarantee schemes; ii) encouraging youth entrepreneurship; and iii) promoting labour standards and rights of young people by ensuring that they receive equal treatment and are afforded rights at work, including their right to organise and bargain collectively, and ensuring their adequate social protection.