

Global Employment Outlook

Global Employment Outlook, April 2012 projections

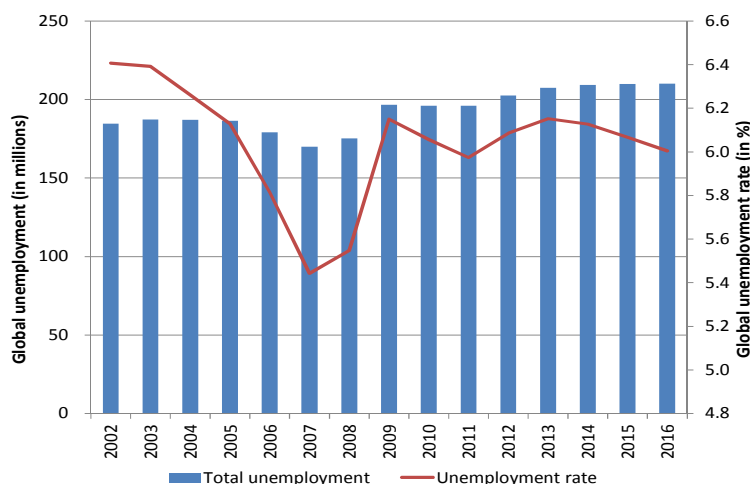
ILO has downgraded its Global Employment Outlook forecast for 2012 and 2013, revising upwards global unemployment rates to 6.1 per cent this year and 6.2 per cent in the next, an increase of 0.1 percentage point in each year (see table below). The figures paint a bleak picture also over the medium term with unemployment expected to remain at over 6 per cent until 2016.

This is a noticeable upward revision of global unemployment in comparison to our projections of September 2011 when ILO forecasted a global unemployment rate of 6 per cent and noted that it would remain virtually unchanged from this rate going forward but still well above its pre-crisis rate of 5.4 per cent.

The reason for ILO's spring 2012 downgrade of the employment outlook is the worsening global economic outlook, starting with a serious slowdown in economic growth in advanced economies in the third quarter of 2011. As a consequence, in April 2012, the GDP growth forecast for 2012 has been revised down from 4 per cent to 3.5 per cent, and for 2013 from 4.5 per cent to 4.1 per cent (IMF, 2012. *World Economic Outlook. Growth resuming, dangers remain*, Washington).

The revision in the outlook of growth and employment presents a dire picture of the global macroeconomy. Following a short recovery in 2010, global prospects have weakened substantially, and global policy, after an initial coordinated stimulus, appears adrift. Even then, the pickup in GDP growth in 2010 brought down the unemployment rate merely by 0.2 per cent from its crisis peak of 6.2 per cent in 2009.

The rise in unemployment is more pronounced in advanced economies



where the slowdown in growth takes its toll on the labour market. The unemployment rate in these economies is projected to surge from 8.5 per cent in 2011 to 9.1 per cent in 2012, and 9.4 per cent in 2013. While developing and emerging economies are less affected, they too, face a challenge in their labour markets: in East Asia, unemployment rates are projected to rise from 4.2 per cent in 2011 to 4.4 per cent by 2013; in South East Asia from 4.7 per cent to 4.8 per cent; in South Asia from 3.8 per cent to 3.9 per cent; in Latin America from 7.1 per cent to 7.2 per cent; and in the Middle East from 10.2 to 10.5 per cent.

Forecasts for the number of job seekers show a similar trend. Global unemployment is expected to hit 202 million by 2012, up 2 million from the previous forecast. 2013 figures are revised upwards by 4 million. Advanced economies and East Asia are wholly responsible for the revised increases in unemployment levels with some compensating gains in two other regions, namely South Asia and Sub-Saharan Africa.

There are five prominent, negative

feedback loops fuelling the downgrade in growth and employment forecasts. Initially observed in advanced economies these are gradually spreading to emerging markets. One, households are not spending more as they repair their balance sheets to recover from loss of asset and wage income. ILO estimates suggest consumption to be a lagging contributor to growth during the period of recovery from the crisis. Two, firms are also not making further investments despite low interest rates, and accommodating liquidity by the Federal Reserve ("QE2") and most recently the European Central Bank ("Long-term Refinancing Operation"), and this partly due to low productivity growth. They largely continue to repair their balance sheets, stockpiling cash, and waiting for consumption demand to pick up. Three, banks and other lending institutions still carry large piles of non-performing assets, including sovereign debt, on their balance sheets, hampering them to expand credit. In addition, regulatory uncertainty over the concrete implementation of new prudential regulations such as Basel III and Dodd-Frank, further depress credit activity. The IMF, for instance,

has a band range of a decline in Eurozone credit of between 1.7 per cent and 4 per cent. Four, mushrooming public debt and budgetary deficits in euro area countries have raised costs of borrowing often leading to severe austerity measures which strain public sector demand. Five, given weak domestic demand and the lack of exchange rate flexibility in the Eurozone preventing growth through exports, the bulk of adjustment costs fall on the labour. In turn, this leads to cuts in the wage bill, often coming through wage or employment cuts, a tax wedge and increase in working years or workers' contributions to social protection.

Rising bond yields causes governments to pursue austerity measures to regain credibility weakening aggregate demand and GDP, which further increases public deficits. At the same time, monetary policy is not ade-

quately playing its role as lender of last resort to help banks repair their balance sheets. Thus an attempt to decrease bond yields via fiscal austerity may actually end up increasing them due to the added growth risk over and above the initial budgetary risk. The slowdown in GDP growth and jobs in advanced economies also tend to weaken the emerging markets' demand for exports, lowering their GDP growth and employment prospects. ILO's downgrade of East Asia's unemployment rates is a clear reflection of this.

Austerity measures are hampering economic growth as they are implemented across the board, without regard to high adverse multiplier effects. In particular, cutting down labour market spending – whether active or passive – has shown to have strong negative effects on the employment recovery. At the very

least, governments that cut back spending should make sure to focus on those expenditure items that have the least immediate effects on economic activity, such as subsidies or tax expenditures (ILO. 2012. *Global Employment Trends. Preventing a deeper jobs crisis*, Geneva).

Finally, elevated oil and commodity prices pose an additional challenge to global growth and job prospects. To reverse these negative prospects, policy should address one or more of these negative feedback loops. The new growth pact just being called for by policy makers across the European continent may complement ILO's Global Jobs Pact, and steer policies in a direction to successfully alter the bleak outlook of the global economy in general and labour markets in particular.

Table: Global unemployment projections April 2012 vs. Oct. 2011

Region	Total unemployment (thousands)										Difference from GET Oct. 2011 Thousands	
	2007	2008	2009	2010	2011*	2012p	2013p	2014p	2015p	2016p	2012	2013
WORLD	169,946	175,319	196,589	195,933	195,972	202,437	207,409	209,292	209,812	210,101	2,204	4,713
Developed Economies & European Union	29,086	30,807	42,512	44,677	43,612	46,665	48,427	47,657	45,726	43,672	3,031	5,157
Central & South-Eastern Europe (non-EU) & CIS	14,473	14,641	18,067	17,021	15,445	15,454	15,509	15,419	15,334	15,268	-92	-98
East Asia	31,641	36,668	37,730	36,153	36,491	37,430	38,014	38,478	38,870	39,198	1,516	1,812
South-East Asia & the Pacific	16,090	15,679	15,519	14,716	14,572	14,911	15,325	15,503	15,632	15,760	39	154
South Asia	24,689	23,248	24,266	24,983	24,892	25,422	26,038	26,611	27,154	27,658	-101	-77
Latin America & the Caribbean	18,425	17,940	21,268	20,260	20,283	20,713	21,181	21,628	22,034	22,426	-272	-294
Middle East	6,370	6,558	6,561	6,693	7,157	7,415	7,662	7,931	8,202	8,451	7	14
North Africa	6,549	6,405	6,550	6,714	8,014	8,182	8,299	8,382	8,443	8,518	156	125
Sub-Saharan Africa	22,623	23,373	24,116	24,715	25,504	26,246	26,953	27,683	28,417	29,149	-2,081	-2,079

Region	Total unemployment rate (%)										Percentage points	
	2007	2008	2009	2010	2011*	2012p	2013p	2014p	2015p	2016p	2012	2013
WORLD	5.4	5.5	6.2	6.1	6.0	6.1	6.2	6.1	6.1	6.0	0.1	0.1
Developed Economies & European Union	5.8	6.1	8.3	8.8	8.5	9.1	9.4	9.2	8.8	8.4	0.6	1.0
Central & South-Eastern Europe (non-EU) & CIS	8.4	8.4	10.2	9.6	8.6	8.6	8.6	8.5	8.4	8.4	0.0	0.0
East Asia	3.8	4.3	4.4	4.2	4.2	4.3	4.4	4.4	4.4	4.4	0.2	0.2
South-East Asia & the Pacific	5.5	5.3	5.2	4.8	4.7	4.7	4.8	4.8	4.7	4.7	0.0	0.0
South Asia	4.0	3.7	3.8	3.9	3.8	3.8	3.8	3.9	3.9	3.9	0.0	0.0
Latin America & the Caribbean	7.0	6.6	7.7	7.2	7.1	7.1	7.1	7.2	7.2	7.2	-0.1	-0.1
Middle East	10.3	10.4	10.1	9.9	10.2	10.3	10.4	10.5	10.5	10.6	0.0	0.0
North Africa	10.0	9.6	9.6	9.6	11.2	11.2	11.1	11.0	10.8	10.7	0.2	0.2
Sub-Saharan Africa	7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.5	7.5	7.5	-0.6	-0.6

p = projection; 2011 are preliminary estimates.

Source: ILO - Trends Econometric Models, April 2012



International
Labour
Organization

TRENDS Unit
Employment and Labour Market Analysis
Department
Employment Sector
ILO