

The labour market during recent economic downturns

The recent economic downturn in Australia, triggered by the global financial crisis, is the fourth period of slowing or declining economic growth in the past 30 years. The first two, during the early part of the 1980s and the 1990s, respectively, were severe and protracted recessions, characterised by a marked decline in economic activity and rising unemployment. The most recent two, at the beginning and end of the decade just finished, were milder both in length and severity.

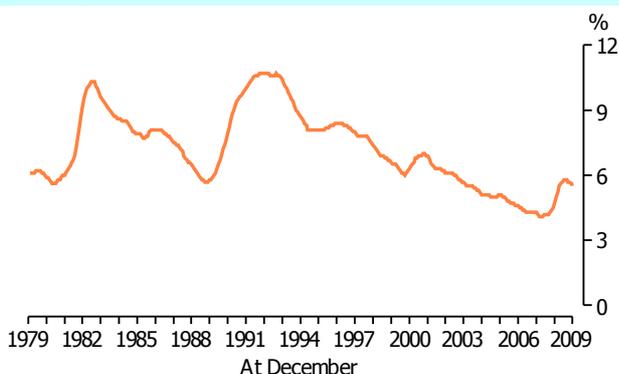
For many people, the most direct impact of an economic downturn is the effect it has on their opportunities in the labour market. The impact of economic downturns on the Australian labour market depends to a large degree on the extent of the contraction in economic growth and economic conditions experienced by our major trading partners. The effect of downturns has also changed in recent times due to shifts in the Australian labour market including, among other things, increased female labour force participation, and a marked increase in part-time employment.

The labour market 1980-2009

The impact of economic downturns on the labour market is usually measured by changes in the unemployment rate. During the recession of the early 1980s, the unemployment rate rose (from 5.6% to 10.3%) as the number of unemployed people rose by more than 300,000 to 724,000. It was a similar story in the early 1990s when the unemployment rate rose even higher (from 5.7% to 10.7%) with the number of unemployed people growing by 440,000 to more than 900,000.

The downturn of 2000–01 was comparatively mild, with unemployment rising just one

Unemployment rate(a) – 1980-2009



(a) Trend data.

Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)

Data source and definitions

This article uses data from the [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0).

Labour force status is a classification of the civilian population aged 15 years and over into full-time employed, part-time employed, unemployed or not in the labour force.

People **employed full time** are those who usually work 35 hours or more a week (in all jobs), and those who, although usually working less than 35 hours a week, worked 35 hours or more during the reference week.

People **employed part time** are those who usually work less than 35 hours a week (in all jobs), and either did so during the reference week, or were not at work during the reference week.

Unemployed refers to people who were not employed during the reference week and had actively looked for work in the four weeks leading up to the reference week and were available to start work during the reference week.

This article uses both the **unemployment rate** which is the number of unemployed people expressed as a proportion of the labour force (i.e. employed plus unemployed), and the **unemployment to population ratio** which is the number of unemployed people expressed as a proportion of the civilian population aged 15 years and over.

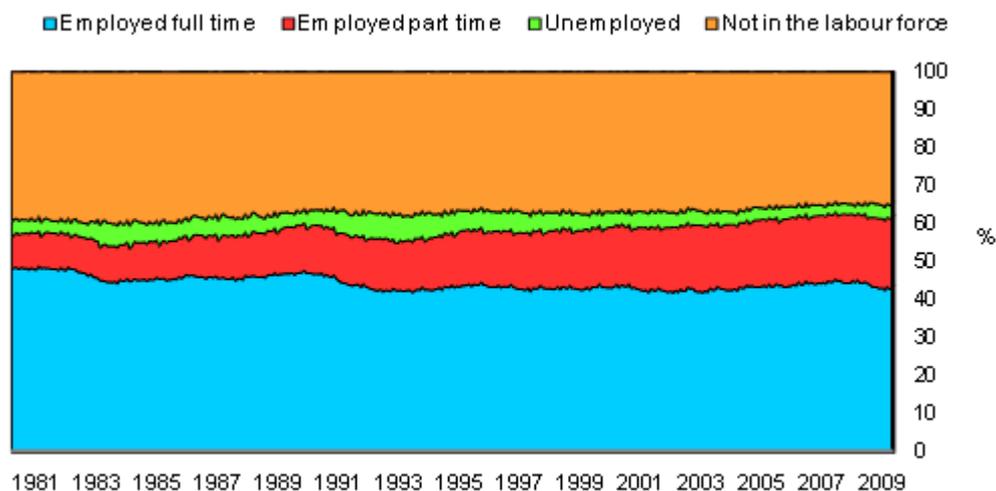
People **not in the labour force** are those who were classified as neither employed nor unemployed during the reference week.

Underemployed workers are employed people (who worked less than 35 hours in the reference week) who want and are available for more hours of work than they currently have. The **underemployment rate** is the number of underemployed workers expressed as a proportion of the labour force.

percentage point (to 7.0%). The impact of the most recent downturn was more pronounced with the unemployment rate rising from 4.1% to 5.8%, and the number of unemployed increasing by 200,000. There have been suggestions that unemployment could have risen more during the recent downturn but for employers' reluctance to put workers off due to the experience of labour shortages in recent years, and the prospect of future shortages as many baby-boomers reach retirement.¹

The emphasis on the unemployment rate is understandable given the profound economic and social costs associated with unemployment. However, the impact of economic downturns is not limited to rising unemployment. Labour force participation and the share of full-time and part-time work are also influenced by changes in economic conditions.

Changes in labour force status of people aged 15 years and over – 1980-2009



Source: [Labour Force, Australia Dec 2009](#) (ABS cat. no. 6202.0)

Changes in labour force status

Each of the economic downturns of the past three decades in Australia has been marked by a significant fall in the proportion of people aged 15 years and over in full-time employment and a corresponding rise in part-time employment, unemployment and people not in the labour force. In some cases, such as falls in the rate of male full-time employment, the changes represented permanent structural shifts in the labour market. Others were relatively fleeting, returning to more normal levels during periods of economic growth. The changes outlined in the following sections do not necessarily imply direct movement of people from full-time employment to other categories. They describe aggregate-level changes that incorporate movements between each of the categories, as well as changes in the cohort of people aged 15 years and over in the population.

Between June 1981 and June 1983, the proportion of people aged 15 years and over who were employed full time fell by around four percentage points (from 48.2% to 44.7%). Around four-fifths of the decline was accounted for by an increase in the proportion of people who were unemployed (up from 3.2% to 6.0%). There was also a rise in the proportion of people not in the labour force (by 0.7 percentage points to 39.9%), while the proportion of people employed part time remained steady (at 9.4%).

The downturn of the early 1990s was even more severe, with the proportion employed full time falling more than four percentage points to 43% in the two years to June 1992. As with the previous downturn, this period saw a significant rise in the proportion of people unemployed (from 4.1% to 6.7%), accounting for around two-thirds of the decline in full-time

employment. There was also an increase in the proportion of people not in the labour force (up 0.9 percentage points to 37.2%). Unlike the previous downturn, the early 1990s also saw an increase in the proportion of people employed part-time (up 0.8 percentage points to 13.6%).

While the rate of part-time employment has grown steadily throughout the past three decades, a shift to part-time employment was a defining feature of the downturn between July 2000 and July 2001 when around half of the decline in full-time employment (from 44.3% to 42.7%) was offset by an increase in the proportion of people employed part time (up 0.7 percentage points to 16.5%). Less than one-third of the fall in full-time employment was accounted for by increased unemployment. The downturn between July 2008 and July 2009 was similar in magnitude to that of 2000–01, with the proportion of people employed full time falling from 45% to 43%. However, unlike the previous downturn, it was increasing unemployment, as well as growing part-time employment, that accounted for the bulk of the decline.

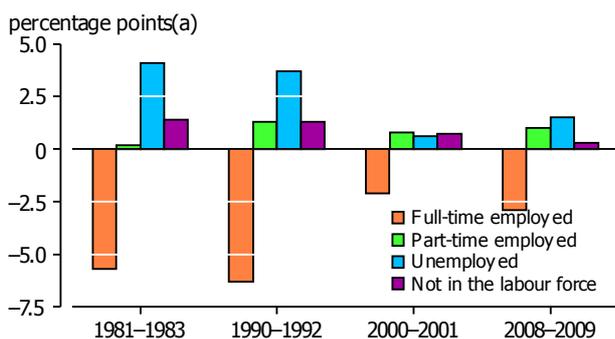
...by sex

As men have traditionally had higher rates of labour force participation than women, particularly in full-time work, the effect of economic downturns has been more pronounced for men. In the early 1980s, the proportion of men employed full time fell by six percentage points (from 70.3% to 64.7%), with almost all of this offset by an increase in unemployment (up 4.1 percentage points to 7.5%), and men not in the labour force (up 1.4 percentage points to 23.6%).

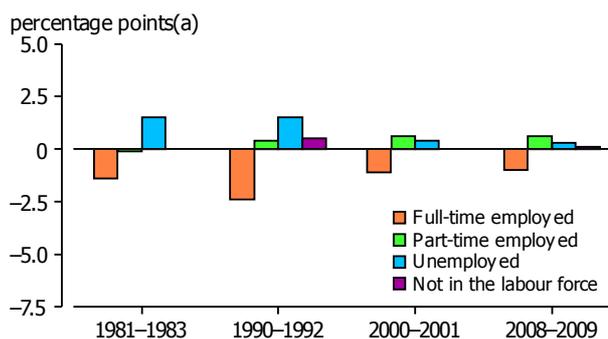
By contrast, the proportion of women working full time fell by 1.4 percentage points (albeit from a much lower base of 26.8%). All of this

Changes in labour force status during economic downturns by sex

MEN



WOMEN



(a) Percentage point change in the proportion.

Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)

decline was offset by unemployment which increased over the period by 1.5 percentage points (to 4.6%).

By the start of the 1990s, the labour force participation rate among women had risen to around 52%, with much of this increase coming from part-time employment. Despite this shift, men still bore much of the impact of the early 1990s recession in terms of its effect on the labour market. The proportion of men employed full time fell around six percentage points (to 58.8%), compared with a fall of around two percentage points (to 26.7%) for women.² Around a fifth of the decline for men and a sixth for women was accounted for by an increase in part-time employment, reflecting the growing role of part-time work in the Australian economy.

The rise in part-time employment rather than unemployment was even more pronounced during the slowdown of 2000-01, for both men and women. This was also the case for women during the most recent downturn where more than half of the fall in full-time employment was offset by a rise in part-time employment, and unemployment accounted for just under a third of the fall in full-time employment.

For men, the most recent downturn was very different. More than half of the decline in male full-time employment was accounted for by a rise in unemployment, and only around one-third by an increase in part-time employment.

...by age

The impact that economic downturns have on people's labour market opportunities also tends to vary with age, affecting younger people in particular. However, this has been in the context of a general decline in full-time employment by young people associated with increased participation in education. During the recession of the early 1980s, the proportion of people aged 15-24 years employed full time fell by around seven percentage points. This compares with

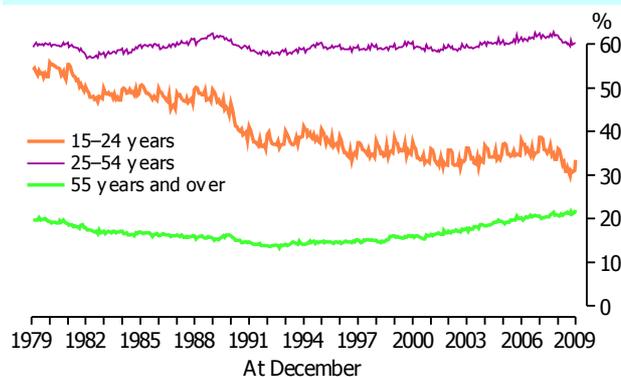
falls of around three percentage points for people aged 25-54 years and around two percentage points for those aged 55 years and over. A similar pattern was also evident during the recession of the early 1990s. In both cases, increasing unemployment accounted for the majority of the fall in full-time employment for those aged 15-54 years, while an increase in those not in the labour force offset the fall among those aged 55 years and over.

While the impact of the downturn of 2000-01 was also felt disproportionately by young people, the nature of this impact differed between young people and their older counterparts. An increase in the proportion of people unemployed explained most of the fall in full-time employment among those aged 15-24 years, while increasing part-time employment explained most of the fall for those aged 25 years and over.

Interestingly, while the proportion of people aged 15-24 years employed full time has fallen markedly during downturns, it has not tended to pick up again once growth returns, as it has for older age groups.

The effect of the most recent downturn has been quite different across the age groups. Despite the slowdown in 2008-09, the

Proportion of people employed full-time by age group — 1980-2009



Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)

proportion of men and women aged 55 years and over employed in both full-time and part-time work increased, continuing a long-term trend. In contrast, the proportion of people aged 15–24 years who worked full time fell by five percentage points during the latest downturn. Around a third of this was offset by a rise in unemployment (driven by an increase among males), while more than half was accounted for by an increase in the proportion of people not in the labour force (this was particularly the case for women, with a rise in the proportion of young women in full-time study – see *Australian Social Trends March 2010*, 'Are young people learning or earning?').

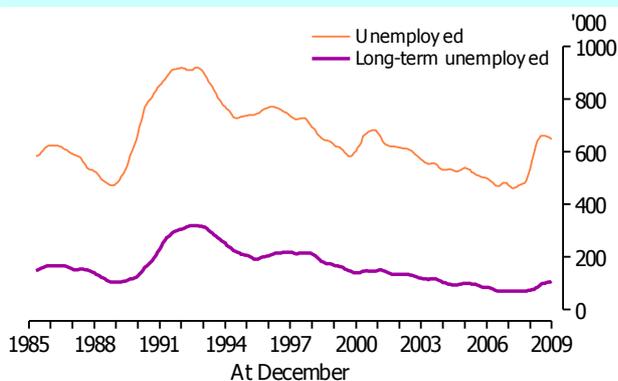
For those aged 25–54 years, there was a decline in the proportion of people employed full time, largely among men. Around half of this was accounted for by a rise in unemployment. This is in contrast to the previous downturn in 2000–01, when most of the decline was accounted for by an increase in part-time employment.

Long-term unemployment

One of the most concerning aspects of downturns is often an increase in the number of long-term unemployed (i.e. people unemployed for a period of 12 months or more). Aside from the potential financial hardship, being unemployed for an extended period can lead to a loss of relevant skills, confidence and motivation, making it harder to find work even when labour market conditions improve. During the recession of the early 1990s, the number of people who were long-term unemployed almost trebled, peaking at around 320,000 in 1993. Over this period, the proportion of unemployed who had been out of work for at least 12 months rose from one in five to one in three.

The downturn of 2000–01 was much shorter and milder than that of the early 1990s and had minimal impact on long-term unemployment

Unemployment and long-term unemployment(a) – 1986-2009



(a) Trend data.

Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)

International comparison

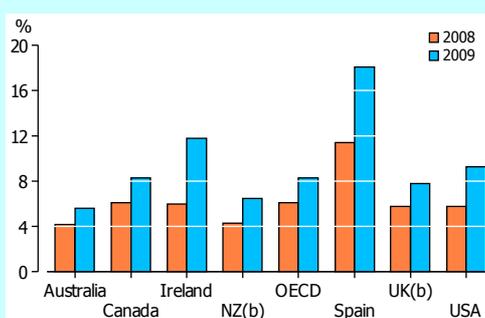


The impact of the global financial crisis of 2008–09 saw slowing economic growth and deteriorating labour market conditions in most countries around the world. Among the countries of the Organisation for Economic Cooperation and Development (OECD), the average unemployment rate rose from 6.1% in 2008 to 8.3% in 2009.

Australia was one of the least affected countries in the OECD over this period, with the harmonised unemployment rate rising just 1.3 percentage points to 5.6%. This was less than the rises experienced in Canada (2.1), New Zealand (2.2), the United Kingdom (2.0) and the United States (3.5). The unemployment rate in Germany has been relatively unscathed by global conditions, rising just 0.2 percentage points, albeit from a high base (7.3%).

The impact of the crisis has been particularly severe in Ireland where the unemployment rate rose almost six percentage points to 11.8%, and Spain where the unemployment rate has risen almost seven percentage points to an average of 18.1% in 2009.

Unemployment rate(a), selected OECD countries



(a) Harmonised.

(b) Data are for third quarter rather than annual average.

Source: [OECD Harmonised Unemployment Rates](#)

other than to temporarily interrupt the downward trend. The most recent downturn has seen the number of long-term unemployed increase from 70,000 to around 100,000. It is too early to gauge the full impact of the downturn as movement in long-term unemployment tends to lag other changes in the labour market by many months. However, an increase in the average duration of unemployment (from 28 to 36 weeks over the year to December 2009) suggests that the unemployed are finding it increasingly difficult to obtain work.

Underemployment

Rising levels of part-time employment and increased flexibility in employment arrangements in recent times has seen a shift in the impact that downturns have on people's employment prospects. For many people, it is not so much that they cannot find any work during downturns, but that they cannot get enough work. Consequently, the unemployment

rate does not necessarily capture the full extent to which the labour supply is underutilised. This is reflected in growing interest in other measures of labour force underutilisation, such as the underemployment rate. This is a particularly important indicator for groups with a high prevalence of part-time employment, such as women and young people.

During the recession of the early 1980s, most of the increase in labour force underutilisation for both men and women came in the form of unemployment. There was little movement in the underemployment rate at this time (increases of less than two percentage points for both men and women), accounting for around a fifth of the overall increase in labour force underutilisation for men, and a third for women.

The recession of the early 1990s saw larger rises in the underemployment rate for both men and women. Among men, the underemployment rate rose by around three percentage points, compared with a rise in the unemployment rate of six percentage points. By the early 1990s, the underemployment rate among women was roughly on par with the unemployment rate (reflecting the high rate of part-time employment among women), and both rose by around three and a half percentage points during the recession.

The period of sustained economic growth following the recession of the early 1990s saw the unemployment rates for both men and women fall considerably. However, this was not matched by a fall in the respective underemployment rates which either rose or remained steady despite the strong growth in both economic output and employment. During the downturn of 2000–01, both underemployment and unemployment rates for men and women rose around one percentage point.

During the most recent downturn, underemployment and unemployment

contributed equally to the increase in the labour force underutilisation among men (both rising by around two percentage points). For women, however, underemployment accounted for roughly two-thirds of the overall increase in underutilisation.

Hours worked

Changes in demand for labour during economic downturns are also evident in measures of hours worked, particularly for men. During the year to June 1991, the aggregate hours worked in the Australian economy fell by around 4%. Aggregate hours worked by men fell by around 5%, while those worked by women fell by around 2%.

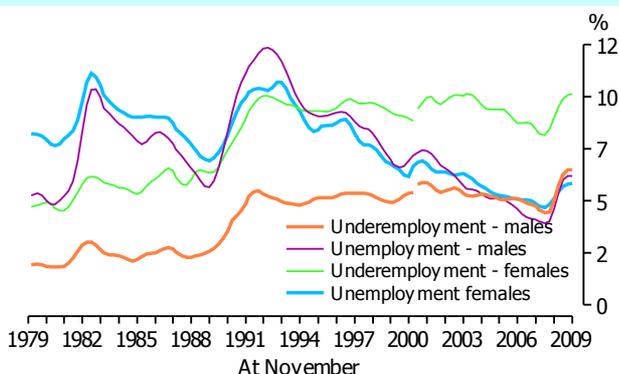
The two most recent downturns have been less severe, with aggregate hours worked by men falling by around 3% during both periods. By contrast, aggregate hours worked by women actually rose by around 1% during the downturn of 2000–01, and fell by just under 1% in the year to July 2009.

Anecdotal reports have suggested that many employers have responded to the most recent downturn by cutting employees' hours, rather than putting them off. This is partly reflected in an increase in the proportion of people employed part time. However, it is also evident in measures of the distribution of hours worked, with a decline in the number of men working long hours (e.g. more than 45 hours a week). This suggests that many have continued working full time, but work fewer hours than they did previously.

Industry

The economic downturns over recent decades have tended to affect the goods producing industries such as Manufacturing more so than the service industries, reflecting the structural adjustment in the Australian economy. During

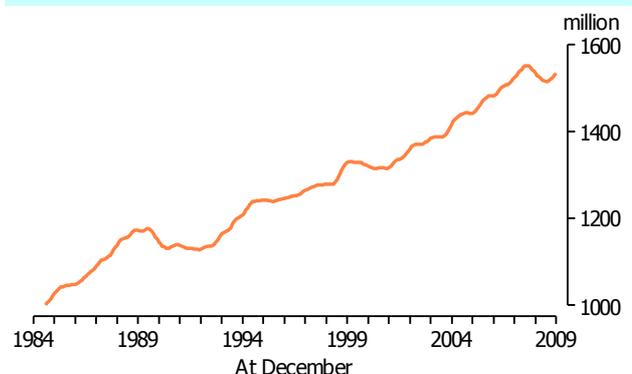
Underemployment(a) and unemployment rates(b) by sex – 1980-2009



(a) Break in male and female underemployment series at May 2001.
(b) Trend data.

Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)

Aggregate hours worked(a), persons – 1985-2009



(a) Trend data.

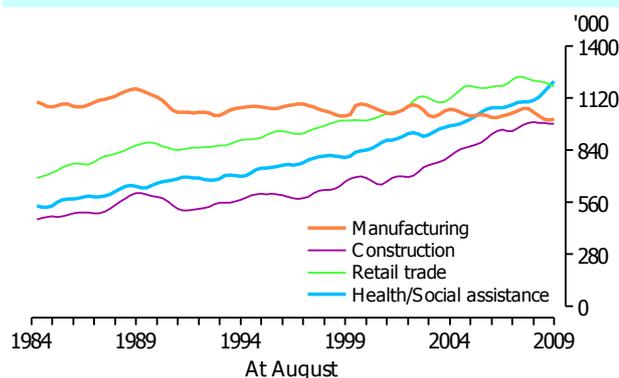
Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)

the downturn of the early 1990s, the number of people employed in the Manufacturing industry fell by 93,900 (or around 8%), with almost all of this decline coming in full-time employment. While not as severe as that of the early 1990s, each of the two most recent downturns have also seen a decline in employment in Manufacturing. In the year to August 2001, employment in the Manufacturing industry fell by 51,500 (or around 5%), again with almost all coming from a fall in full-time employment. The most recent downturn also saw a fall in full-time employment in the Manufacturing industry (43,300), however, unlike in previous downturns, this was partially offset by a rise in part-time employment (14,200).

During the recession of the early 1990s, the number of people employed in the Construction industry fell by 61,500 (or around 11%), with a large fall in full-time employment partially offset by an increase in part-time employment. There was a similar pattern in 2000–01 when employment in the Construction industry fell by around 5%. The most recent downturn has also seen a marked fall in full-time employment in the Construction sector, although most of this has been offset by an increase in part-time employment. As a result, total employment in the industry has only fallen by around 2% overall. The relative strength of the Construction industry during the most recent downturn may reflect continued demand for new housing due to strong population growth, as well as the impact of government stimulus measures.

The different character of downturns in recent times is also evident in the impact they have had on employment in the Retail trade sector. The number of people employed in Retail trade fell by 29,500 (or around 3%) during the recession of the early 1990s. By contrast, the downturn of 2000–01 saw employment in the Retail trade industry increase by 33,600 (or around 3%), mainly in part-time employment. The most recent downturn has had an even

Total employment, selected industries – 1984-2009



Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)

greater effect on the Retail trade sector than the recession of the early 1990s. In the year to August 2009, employment in the Retail trade sector fell by 51,700 (or around 4%), with more than two-thirds of this coming from a fall in full-time employment.

A number of industries, particularly in the services sector, have grown in spite of difficult economic conditions. For example, employment in the Health care and social assistance industry has increased during each of the three downturns since the early 1990s. During the most recent downturn, the number of people employed in this sector increased by 115,200 (or around 10%), perhaps reflecting increased demand for such services during downturns.

Endnotes

- 1 Thistleton, J., 2010 '[Skills crisis ACT 120,000 short](#)' in *The Canberra Times*, 25 January 2010. <www.canberratimes.com.au>.
- 2 While the percentage point decline in full-time employment was much larger for men than for women, the percentage decline in actual numbers was of a similar magnitude (7% for men and 6% for women).

Change in employment during economic downturns, selected industries

| | | <i>Manufacturing</i> | <i>Construction</i> | <i>Retail trade</i> | <i>Health care/ social assistance</i> |
|---------------------|-----------|----------------------|---------------------|---------------------|---|
| | | '000 | '000 | '000 | '000 |
| May 1990 - May 1992 | Full-time | -92.8 | -72.0 | -33.7 | -5.6 |
| | Part-time | -1.1 | 10.4 | 4.2 | 24.6 |
| | Total | -93.9 | -61.5 | -29.5 | 19.0 |
| Aug 2000 - Aug 2001 | Full-time | -51.0 | -45.1 | 6.4 | 8.5 |
| | Part-time | -0.4 | 9.4 | 27.2 | 26.0 |
| | Total | -51.4 | -35.7 | 33.6 | 34.5 |
| Aug 2008 - Aug 2009 | Full-time | -43.3 | -49.2 | -36.5 | 37.3 |
| | Part-time | 14.2 | 34.2 | -15.2 | 77.9 |
| | Total | -29.1 | -15.0 | -51.7 | 115.2 |

Source: [Labour Force, Australia, Dec 2009](#) (ABS cat. no. 6202.0)