



## *The Job Crisis*

According to Phillip's curve theory, there is a direct trade-off between inflation and unemployment, such that an increase in one would (subject to some lag) cause a fall in the other. In 2008 we experienced record high inflation rates across the globe, which prompted policymakers to tighten monetary and fiscal policy quite rapidly. It should come as no surprise then that we are seeing a steady rise in unemployment (and the number of working poor) as companies trim payrolls in an effort to stay in business. Many experts are suggesting that 2007 employment levels will not be restored until 2011, and that employers will be much more reluctant to hire going forward.

### **What is causing this rising unemployment?**

Unemployment is the percentage of those in the labour force (those who want to work) who cannot find work. The recent run up in unemployment rates globally can largely be attributed to the fact that most companies are experiencing a fall in demand for their goods and services, and therefore need to cut costs and downsize to better survive the recession. The fact is though, that many profitable companies which are still growing are also trimming their workforce now rather than later, in anticipation of declining revenues, and, as time passes, the cost of severing workers increases. Given that there are costs associated with severing employees, there is a short term net cost to the company, but a longer term benefit.

We are also seeing an increasing reluctance globally to hire based not only on expectations of macroeconomic decline, but on tougher labour laws, which have been making workers more expensive via higher minimum wages, and tighter restrictions on firing employees and on reducing remuneration in difficult times. The situation in Spain is a perfect example of this condition, causing that country to have one of the highest unemployment rates in the EU. Job losses have reached a 10-year high in the UK, with the unemployment rate at 6.5%. In the US however, the unemployment rate has jumped to 8.1% or 12.5 million persons - the highest since 1983. The US U-6 measure of unemployment, which includes 'marginally attached' discouraged workers, plus those employed part-time for 'economic reasons' currently stands at 14.8% and is climbing. According to BMI, US unemployment will cross 10% in 2009.

This phenomenon of rapidly increasing unemployment is worrying to many policymakers, and the probability of significant direct government intervention in the labour market is growing. As with the credit crisis, the reluctance to lend spiralled and fed itself, prompting policymakers to intervene by injecting liquidity on the condition that these funds be used to boost lending. In the same way, the reluctance to hire and rising unemployment levels can also spiral out of control and feed itself via declining consumer spending and investing, and increased loan defaults. Also, the longer one is out of work, the

more likely you are to remain unemployed (based on the steady erosion of work-related skills and attitudes which determine employability) - a phenomenon called *unemployment hysteresis*, which again is self-perpetuating. State intervention is needed to break these cycles, and is more likely to take place now, under the current pro-labour administrations in the US, UK and much of Europe and Latin America.

The Obama administration has announced a historic stimulus package which seeks to stimulate reflation and positive economic growth, and of course employment primarily in the short-term through infrastructure work and other construction-related activity. Only the non-cyclical sectors of education, government and health care have been adding jobs in the US.

### **The outlook for employment levels**

The International Monetary Fund (IMF) forecasts global growth of 0.50% in 2009 when measured in terms of purchasing power parity, and this should become negative when measured in terms of market exchange rates, representing the lowest rate since World War II. The IMF's World Economic Outlook report published in January 2009 argued that *"a sustained economic recovery will not be possible until the financial sector's functionality is restored and credit markets are unclogged."* I would argue however, that this condition, while necessary, is insufficient in the absence of a recovery in the labour market. The IMF projects a gradual economic recovery in 2010, with growth projected to reach 3%, with risks to the downside of course.

According to the International Labor Organisation's (ILO), Global Employment Trends report dated January 2009, there are three global unemployment scenarios which can play out. The first scenario is considered the optimistic one, since it yields a global unemployment rate of 6.1%, equivalent to 198 million persons jobless. This represents a marginal rise over the 2008 figure of 6%, and was based on an IMF global growth figure of 2.2% in November 2008. Given that this growth projection has since been revised downward by almost 1.7 percentage points, we can be certain that the corresponding unemployment figure would also be much less favourable, rendering this scenario irrelevant and unattainable.

The second scenario is probably more relevant to today's conditions as it is based on the relationship between growth and employment in times of crisis. Global unemployment would rise to 6.5% by the end of 2009, meaning that 30 million additional people, (210 million in total) would be out of work, compared to 2007 employment levels. The report states *"the largest negative impact on the unemployment rate is seen in the Developed Economies and the European Union, where the unemployment rate would rise to 7.1%. This rate translates into an additional 7 million people in 2009 over 2007 in this group of economies, two million more than in the first scenario."* The impact will no doubt be severe in the emerging markets / developing world, as they still depend to a large extent on developed countries' demand for goods and services, remittances and FDI flows.

The third and most pessimistic scenario put forward by the ILO shows what would happen if the largest jump in unemployment since 1991 were to be repeated in all developed countries, and half the worst rate repeated for all other countries. Under this scenario, global unemployment would reach 230 million or 7.1%, hitting unprecedented levels in the developing world.

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I would actually suggest that this pessimistic scenario is the most likely outcome based on the level of labour market deterioration seen since this ILO report was published, and the fact that the various government interventions will take some time to work themselves through the real economy and translate into more jobs being created. It seems as though if disregarded for much longer, the issue of widespread unemployment will climax into the next global crisis of extensive proportions, as millions more will be plunged into destitution.

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## FINANCIAL & ECONOMIC INDICATORS

As at 2 April, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	99.52	98.71
Euro	1.35	1.35
Jamaica	88.74	88.40
Guyana	205.20	206.00

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	52.64	54.34
Natural Gas (US\$/mmbtu)	3.70	4.16
Gold (US\$/Troy Ounce)	904.05	934.10

### Eurobond Indices (As at 2-April-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	-3.00
JP Morgan EMBI+ (Basis points)	609
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	5.45

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0-0.25	0-0.25
Euro Zone	1.25	1.50
Japan	0.11	0.10
Brazil	11.25	11.25
Trinidad	8.50	8.75
Jamaica	17.00	17.00
Barbados	3.00	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.21	0.14
US 10-Yr Treasury	2.77	2.74
3-month UK Libor	1.62	1.70
Japan 90-day T-Bill	0.37	0.38
Brazil 90-day T-Bill	10.17	10.82
TT 90-day T-Bill	3.26	3.58
Jamaica 90-day T-Bill	20.51	20.51
Barbados 90-day T-Bill	3.85	3.85

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)

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