

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 92

Topic: Unemployment

Hansard Page: E28- E29 (11/02/2010)

Senator BUSHBY asked:

Senator BUSHBY—You mentioned earlier the prediction that we, as a nation, will grow at similar rates to when we were coming out of the recession in the early 1990s. But at that time we had a far greater degree of spare capacity to tap into to feed that growth—

Dr Gruen—That is right.

Senator BUSHBY—than we do now, because we are starting the recovery from a much lower position in terms of unemployment and probably other necessary resources.

Dr Gruen—I will make a couple of points on this. From the budget to MYEFO we reduced our estimate of the growth rate in the projection period.

Senator BUSHBY—From 4½ per cent down to four per cent.

Dr Gruen—Yes, and for a shorter period of time, for precisely the reason that you—

Senator BUSHBY—You are saying that is because there is less spare capacity to absorb during the recovery.

Dr Gruen—Precisely. The other point worth making is that this has been a remarkable episode. We do not yet know whether the unemployment rate has peaked, but it is remarkable to be where we are now, in early 2010, with the highest unemployment rate having been a number with a five in front of it. Although US unemployment is slightly below 10, it has been to 10 per cent and it is probably going to stay there for an extended period. European unemployment is at 10 per cent.

Senator BUSHBY—Despite large fiscal packages in those countries.

Dr Gruen—Indeed, and monetary easing down to close to zero.

Senator BUSHBY—Exactly. As I said, I do not want to go into the reasons why we are different today because we have discussed that in the past.

Dr Gruen—The point I was going to make is that it has been a very good outcome that firms have been able to—

Senator BUSHBY—I do not argue with that. It is a fantastic outcome.

Dr Gruen—cut hours rather than workers, but the relevance of that point is that the unemployment rate gives you—the fact that the unemployment rate is as low as it is means that there is more spare capacity in the economy than the unemployment rate would lead you to think—

Senator BUSHBY—Through underemployment.

Dr Gruen—because hours have come down so far. It is unusual to have an extended period in which the number of hours worked in the economy is falling. We had an extended period from about mid-2008 to mid-2009 in which hours worked were actually declining. This is in an economy in which workforce growth is quite rapid. So actual declines in hours worked are

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opening up quite a big amount of spare capacity. The point I am making is that an unemployment rate of 5½ gives you an overly optimistic idea of how close we are to full employment.

Senator BUSHBY—So essentially 5½ per cent is not a true indicator of our labour capacity—

Dr Gruen—That is right.

Senator BUSHBY—because it masks—

Dr Gruen—Weakness in hours worked.

Senator BUSHBY—hours worked. So a lot of people are not working as much as they would choose to if they could.

Dr Gruen—And in the recovery it will be possible for those people to pick up their average hours.

Senator COLBECK—Is there any doubt on the quantum of that?

Dr Gruen—Yes, there is. The ABS publishes monthly employment trends. It was falling at an annualised rate of nearly four per cent at its peak. That monthly data is available and it is now the case that hours worked are growing, yes.

Senator Sherry—If you want to, we can take it on notice.

Dr Gruen—We can give you that data.

Answer:

Please see the attached spreadsheet containing:

- Aggregate monthly hours worked, Trend (ABS series ID: A3346490L);
- Employed – total Persons, Trend (ABS series ID: A183810W); and
- Average monthly hours worked, Trend.

Summary

Since the recent peak in July 2008, trend average hours have fallen 2.4 per cent to be 140.3 hours in February 2010.