

Monday, 18 February 2013

Cuts to public sector jobs are driving a rise in unemployment and putting pressure on services

New research by the ACTU reveals that the number of public sector jobs in Australia has fallen for the first time in more than a decade after Coalition state governments last year sacked tens of thousands of workers and made harsh cuts to public services.

More than 50,000 public administration and safety jobs were lost around the country in the year to November 2012, with about half of those cuts taking place between May and November as state governments in New South Wales and Queensland executed radical job cuts. And more job losses are on the way as state governments foreshadow further deep cuts to their wages bills.

The [ACTU Jobs Report](#) found that employment in public administration and safety fell by 6.9% - by far the biggest yearly fall in employment in that industry on record going back to 1984 - with these cuts to public services being a major factor in the rise in Australia's unemployment rate.

ACTU President Ged Kearney said cutting public servants had led to more pressure on vital services like health and education and an impact on unemployment rates.

"The Federal Government, as well Queensland, Tasmania, Victoria and WA, and local governments, have reduced the size of their public sector," Ms Kearney said.

"This is likely to continue this financial year, and into 2013-14. For example the Newman Government in Queensland only took office in March and the bulk of their savage cuts took effect in the second half of 2012."

"Cutting public sector workers is a short-sighted policy which will lead to reduced services for all Australians. Many of the workers who lose their jobs will spend long periods of time in unemployment.

"What is most concerning is that Tony Abbott and Joe Hockey have said they will slash 20,000 Commonwealth government jobs as soon as they are elected, and are looking for savings of more than \$50 billion."

The National Secretary of the Community and Public Sector Union, Nadine Flood, said public sector workers were fiercely proud of the work they do, but warned Australia's world-class public service is under threat from conservative politicians at the State and Federal level, keen to make deep budget cuts.

"With the public sector already under pressure, cuts like those put forward by Tony Abbott will severely damage public services in Australia," Ms Flood said. "No matter how the Coalition tries to spin it, deep cuts to the public sector mean cuts to the services that Australians rely on."

Ms Kearney said that the ACTU's analysis of unemployment data showed that while the official unemployment rate of 5.4 per cent had stayed steady over the last three months, the total number of hours worked had dropped.

The ACTU's Jobs Report for February is available in the Publications section at www.actu.org.au

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Key points discussed in this edition of the ACTU Jobs Report

- Recent jobs growth has all been in part-time work, with full-time employment falling for three months straight.
- Employment has been growing at a steady, though slow, pace, but the number of hours worked has stagnated.
- Victoria, South Australia, and Queensland, all have unemployment rates just under 6%, while Tasmania's is a shocking 7.4%.
- Employment growth in Queensland closely tracked WA from the start of the mining boom until 2010. Since then, Queensland employment has been flat. Conditions worsened in late 2012, as public sector workers lost their jobs.
- Across the country, the number of public sector workers shrank in 2011-12, for the first time since the late 1990s.
- Local governments collectively reduced their workforces by 3 000 people in 2011-12.
- Tasmania's public sector workforce shrank by 4.6% in 2011-12.
- Employment in the public administration & safety industry fell by nearly 7% in the year to November 2012, the biggest fall on record (the data go back to 1984).
- Analysis of State, Territory & Commonwealth government budgets shows that the squeeze on public sector workers is likely to continue and even get worse in 2013-14.
- Construction employment fell by 3.7% over the year, while Mining employment rose by 11.9%.
- The ageing population is responsible for nearly half of the decline in the participation rate since 2010.
- A number of forward-looking indicators of labour market activity suggest that employment growth will be sluggish in the coming months.

Please contact Matt Cowgill at mcowgill@actu.org.au if you have any comments or queries about this Jobs Report, or if you have any suggestions for future reports.

Australian jobs at a glance

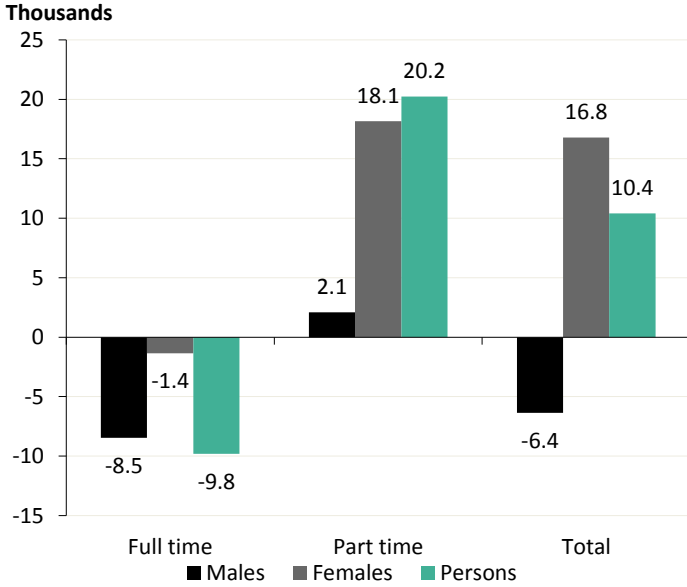
	Level	Monthly change	Year-ended change
Employed persons	11549100	10400	98900
-Full time employment	8098400	-9800	36700
-Part time employment	3450700	20200	62200
Working age population	18784900	37500	317900
Employment-to-population ratio	61.5%	-0.1	-0.5
Unemployment rate	5.4%	0	0.3
Unemployed persons	659600	2000	47700
Underemployment rate (quarterly)	7.20	0.1	-0.1
Participation rate	65.0%	-0.1	-0.3

Source: ABS, FWA. Underlying CPI is the average of the trimmed mean and weighted median. All figures are seasonally adjusted other than the CPI and ALCI. The gender pay gap is calculated using full time adult AWOTE.

Employment and unemployment

Full-time employment fell again in January, down by 9 800 persons, after also falling in December and November. Part time work rose in January, by 20 200 people. Total employment rose by 10 400 people in the month.

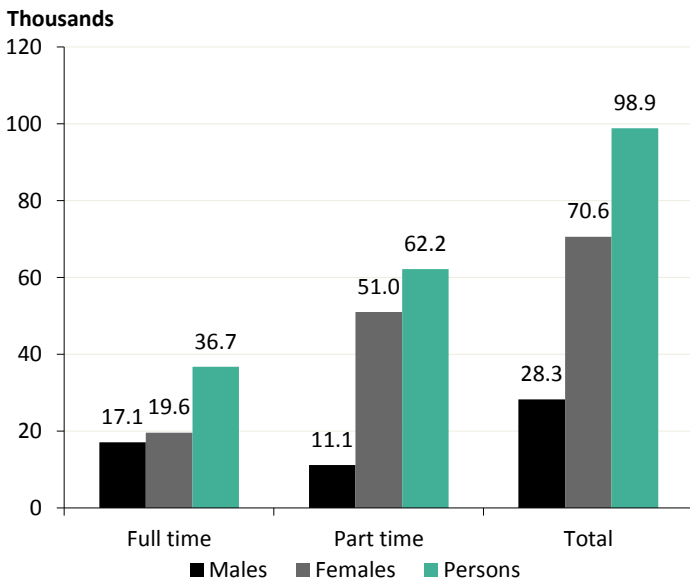
Figure 1: Change in employment, month to January 2013



Source: ACTU calculations based on ABS 6202

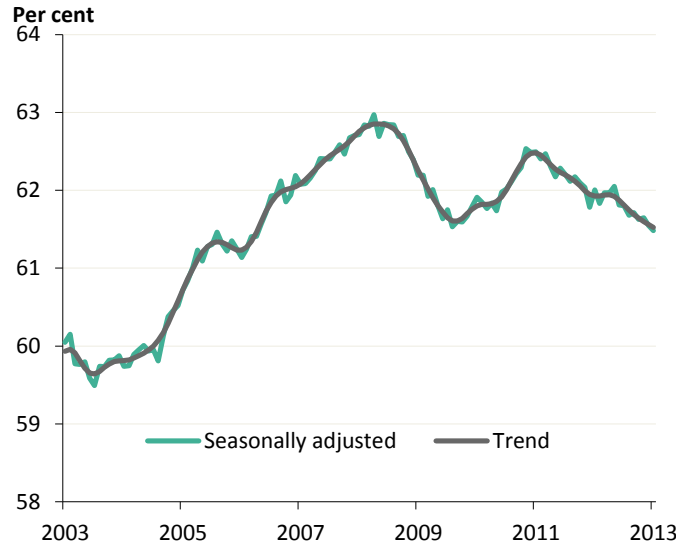
Over the past year, the biggest job gains were seen among female part time work (up by 51 000 people), followed by male full time work (+19 600). Total employment grew by 98 900 or 0.9% over the year; in the same period, the working-age population rose by 1.7%.

Figure 2: Change in employment, year to January 2013



Source: ACTU calculations based on ABS 6202

Figure 3: Employment-to-population ratio

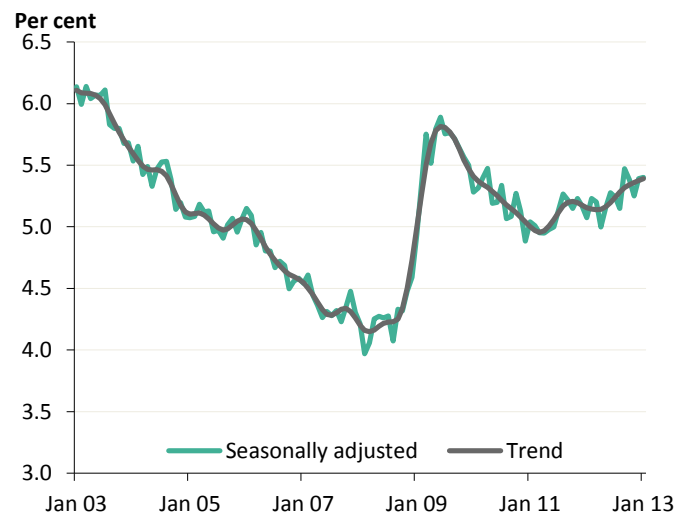


Source: ACTU calculations based on ABS 6202

The fact that jobs growth didn't keep up with population growth means that the employment-to-population ratio fell over the year, to 61.5%. This is equal to the low recorded in the wake of the GFC. This is still a high level in historical terms, but the trend is worrying. The fall in the ratio over the past couple of years is, in large part, due to cyclical factors (like the effect of the weak growth in many other advanced economies), but demographic change is also having an impact. The issue of the ageing population is examined in more depth in a feature in this issue.

Similarly, the unemployment rate is inching in the wrong direction, up from 5.1% a year ago to 5.4% in January this year.

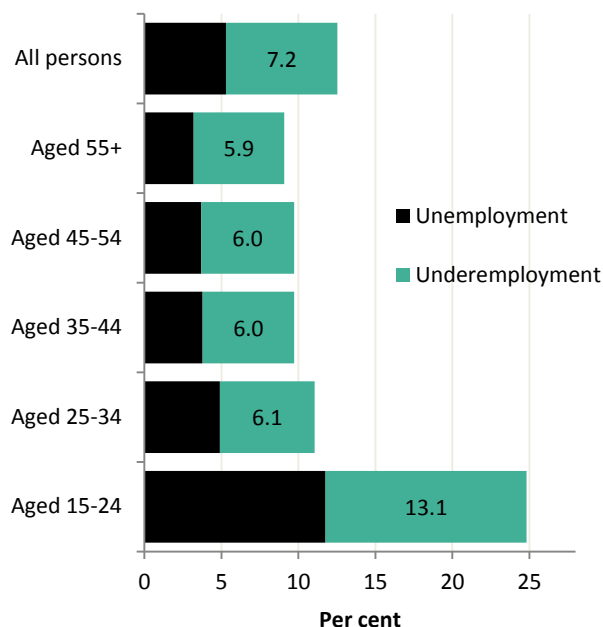
Figure 4: Unemployment rate



Source: ACTU calculations based on ABS 6202

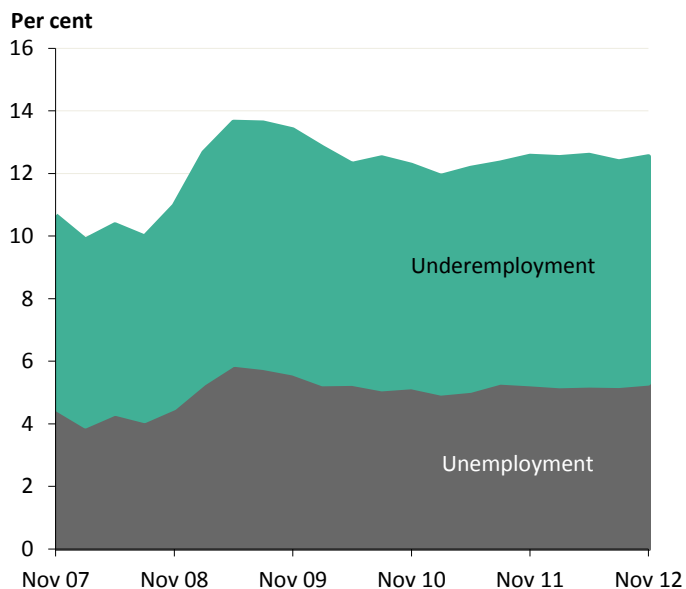
The underemployment rate in the November quarter was 7.2%. This means that 7.2% of people in the labour force were employed, but wanted more hours of work and were available to work more hours. The rate of underemployment was stable over the year. Around 12.5% of the labour force is either unemployed or underemployed.

Figure 5: Underutilisation by age



Source: ACTU calculations based on ABS 6202

Figure 6: Underutilisation over time

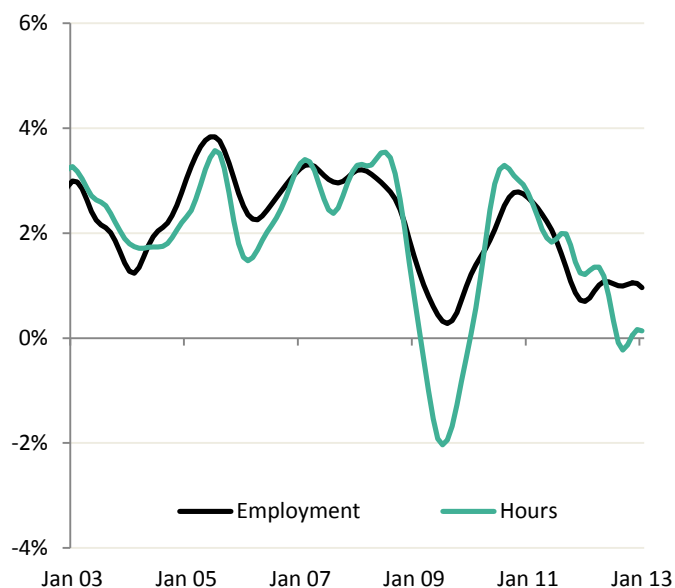


Source: ACTU calculations based on ABS 6202

While the unemployment rate has remained fairly steady in the 5%-5.5% range for the past three years, softness in the number of hours worked in the economy has been a concern. The total number of hours worked in December 2012 was

only 0.1% higher than in December 2011, even though the labour force grew by 1.5% over the same period.

Figure 7: Annual growth in employment & hours



Source: ACTU calculations based on ABS 6202, trend.

The current situation is like a much milder re-run of 2008-09 in the Australian labour market. During the GFC, employment kept rising in Australia, albeit at a very slow pace, but the number of hours worked shrank. In the wake of the crisis, this was seen as evidence of a well-functioning labour market – instead of shedding staff, employers held onto them and reduced hours. This was in contrast to previous Australian downturns, during which hours and employment have tended to contract at around the same pace.

The current softness in hours worked could be an indication that employers are trying to hold on to staff through a period of softness that they expect will be temporary. The softness in hours worked also means that labour productivity growth has been strong – with real GDP growing at around its trend pace, slow growth in hours worked means that GDP per hour has surged ahead.

The States and Territories

The ranks of employed people in Queensland and Tasmania shrank in the year to January. Queensland lost 2 500 workers (-0.1%) and Tasmania contracted by 2 900 employed people, a staggering 1.2% fall. WA saw the most rapid growth over the year and in January, with employment in that state increasing by 3.7% (48 000) in 12 months.¹

Figure 8: Employment growth in the month to December

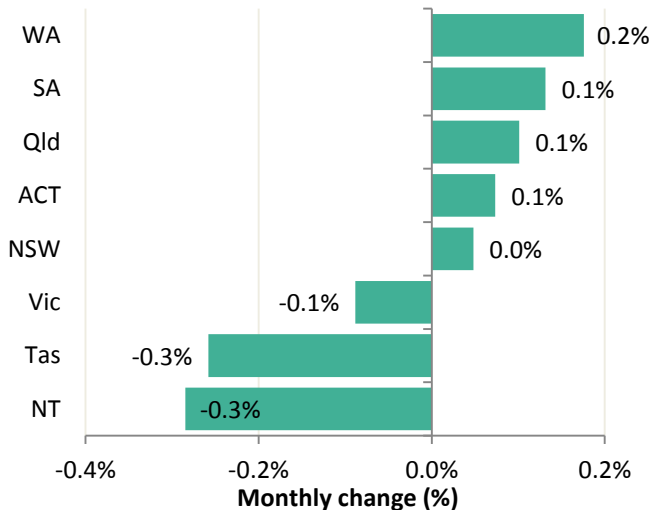
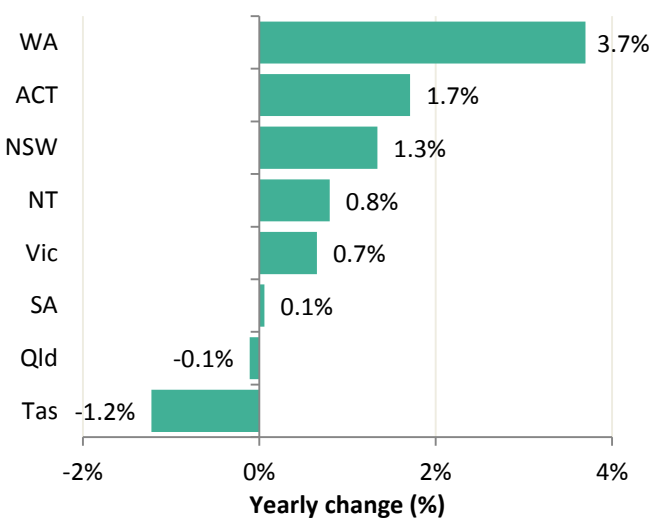


Figure 9: Employment growth in the year to December



Source: ABS 6202, trend.

All States and territories other than the NT and NSW saw their unemployment rates rise in the year to January. The largest rises was recorded in the ACT, albeit off a small base. Unemployment in the national capital rose from 3.6% in January last year to 4.5% this year. The next largest rises were in Tasmania and South Australia (both up 0.7 percentage

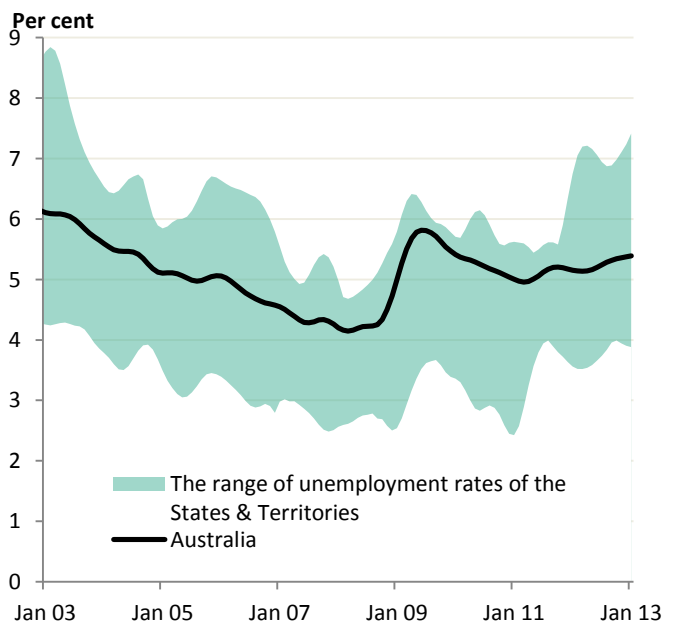
points), followed by Queensland and Victoria (+0.4%). It looks as if Victoria has broken with NSW in recent months to join the ranks of the high unemployment states. Conditions in Tasmania remain dire, as examined in depth in the previous Jobs Report.

Figure 10: Unemployment rates by State in December 2011 and December 2012



Source: ABS 6202, trend.

Figure 11: The range of unemployment rates in the States and territories

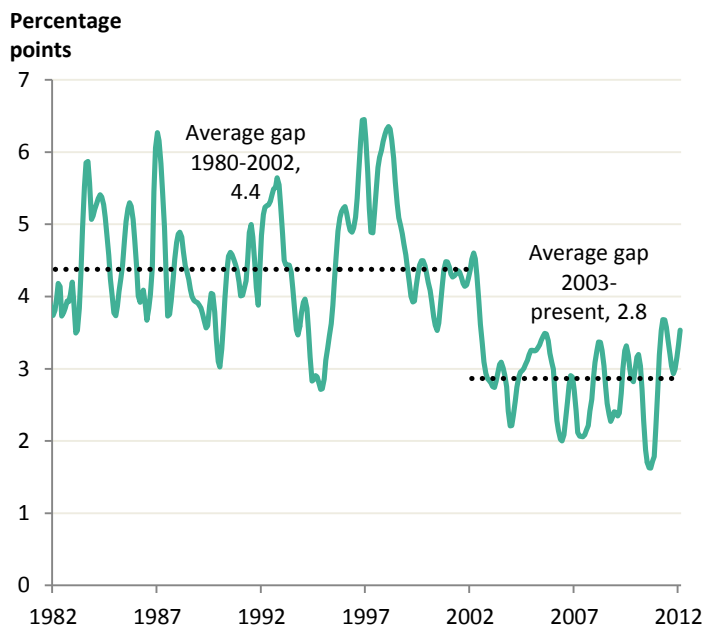


The gap between the highest and lowest unemployment rates of the States and territories has widened a little, to 3.5 percentage points. This compares to an average of 2.8pts

¹ State data in this report are the trend estimates unless otherwise noted.

since the start of the mining boom in 2003. The gap remains lower than in the pre-mining boom period.

Figure 12: Gap between highest & lowest unemployment rates in the States & Territories

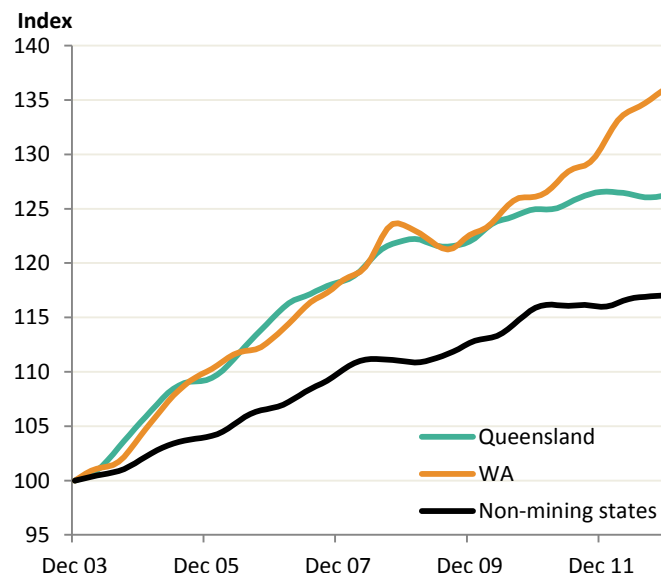


Source: ACTU calculations based on ABS 6202, trend.

In 2011 and 2012, Queensland's working-age population rose by 70 300 people, but total employment fell by 2 500. The number of unemployed people rose by 10 500, while a whopping 62 300 Queenslanders joined the ranks of those not in the labour force, ie. not working and not actively looking for work. The participation rate in Queensland has fallen from 67.6% in December 2010 to 66.1% in December 2012 – still a high level, but a large fall.

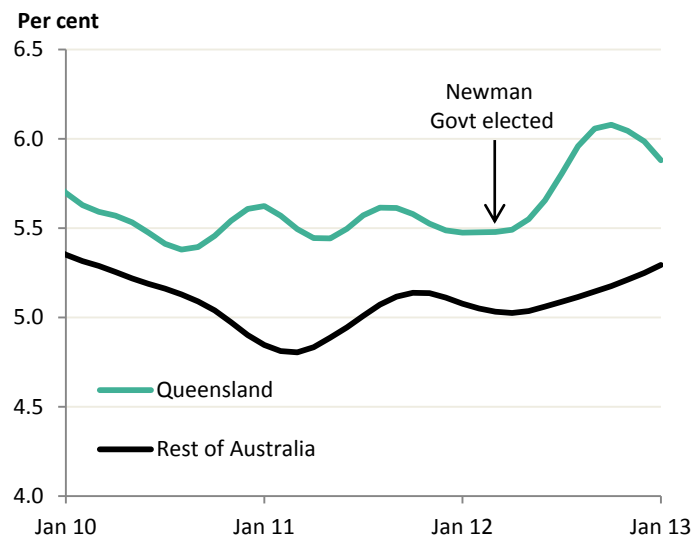
During the 'first phase' of the mining boom, from 2004 to the GFC, employment growth in Queensland moved in lockstep with WA. Even during the GFC, employment contracted by around the same proportion in both states, before picking up at the same time. Between December 2003 and December 2010, employment growth in the two mining states was virtually identical, rising by a total 25% in each state. Since then, however, employment in Queensland has virtually flatlined while WA has surged ahead.

Figure 13: Employment in Queensland, WA, and the non-mining states since the beginning of the mining boom (Index: December 2003=100)



Source: ACTU calculations based on ABS 6202, trend.

Figure 14: Unemployment in Queensland and the Rest of Australia



Source: ACTU calculations based on ABS 6202, trend. Thanks to Scott Steel from Together Queensland for this chart.

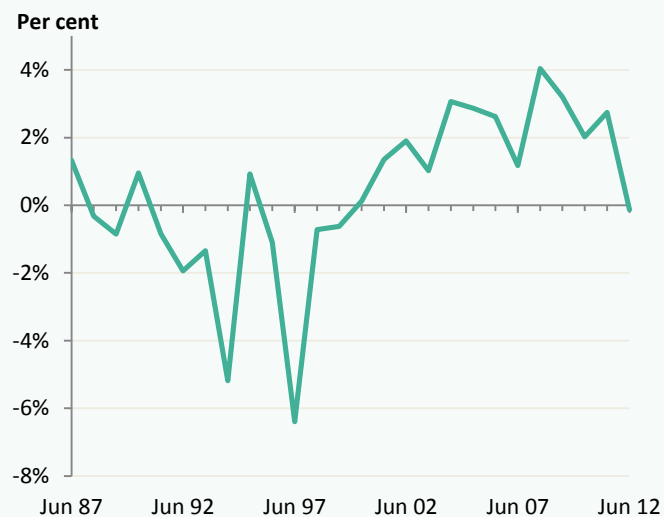
Queensland has been buffeted by shocks of various kinds in recent years, not the least of which have been the various natural disasters, including floods in late 2011/early 2011, Cyclone Yasi, and more floods in early 2013. Job cuts in the public sector have piled onto an economy reeling from these shocks, and have added to Queensland's woes in late 2012. An in-depth examination of public sector employment in Australia is included as a feature in this report.

Feature: A focus on the public sector

Analysts have put forward a range of explanations for recent softness in the labour market, such as gloom from Europe and the US; slowing Chinese growth; heightened consumer caution; and the effect of the strong Australian dollar on trade-exposed industries. All of these have some element of truth to them, but one development remains under-examined: the shrinking public sector.

In the last financial year (2011-12), the number of public sector workers in Australia fell for the first time since the late 1990s. There were 2 500 fewer public sector workers in June 2012 than in June 2011. While this is a relatively small contraction, it comes after a number of years in which the public sector had grown by an average of 40 000 workers each year.

Figure 15: Annual growth in public sector employment



Source: ACTU calculations based on ABS 6248.0

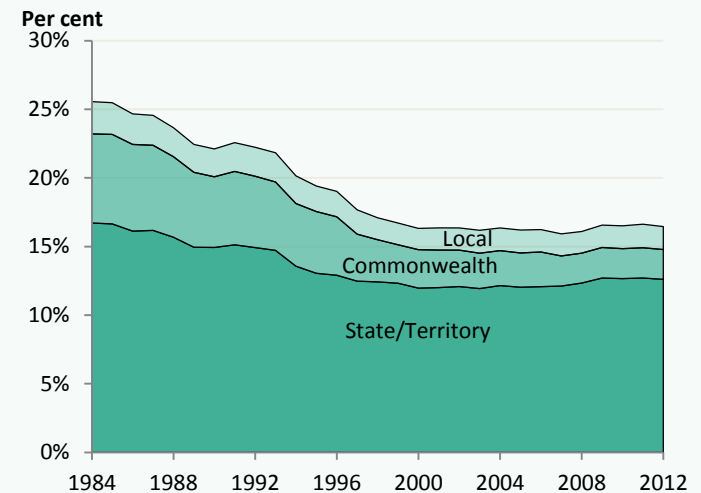
Commonwealth public sector employment fell by 0.5% while local government contracted by 1.5%. Employment in the state public sectors rose slightly, by 0.1%, although employment fell in Victoria (-0.3%), Queensland (-0.2%), WA (-0.7%) and Tasmania (-3.5%).

Collectively, the federal, state, and local public sectors of Australia employed 1.89 million people in June 2012, accounting for around a fifth of all employees² or 16.5% of

² The ABS *Employee Earnings and Hours* survey found there were 9.29 million employees in total as at May 2012.

total employment.³ The State and territory public sectors employ 1.45 million of these workers, with the Commonwealth employing 250 000, and local government the remaining 192 500.

Figure 16: Public sector employment as a proportion of total employment



Source: ACTU calculations based on ABS 6248.0 and ABS 6202. Note that the figure shows the number of public sector employees as a proportion of total employed persons.

The figures on public sector employment need to be treated with caution, as privatisations and changes in the structure of government can mean that the classification of an entity, such as Telstra⁴, can be changed from the public sector to private, without necessarily affecting the total number of people employed. The fall in public sector employment in 2011-12, though, appears to be driven by a real contraction.

The largest reductions in employment in the year were seen in Victoria and NSW, driven in both cases by falling local government employment. Across the country, local governments collectively shed 3 000 workers (net), while Commonwealth employment fell by 1 200 people. In proportionate terms, by far the biggest contraction was in Tasmania. All levels of government reduced their workforce in Tasmania, adding up to a net loss of 2 300 people or 4.6% of the total public sector workforce in that state.

³ Total employment is from ABS 6202 and includes the self-employed in unincorporated enterprises.

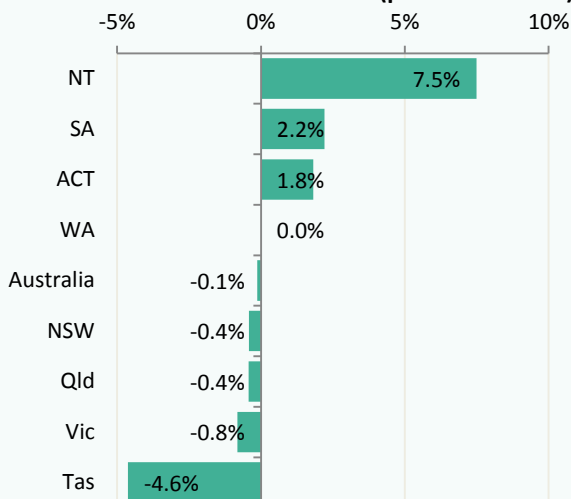
⁴ The ABS reclassified Telstra as a private corporation with effect from 20 November 2006. See ABS 8102.0.

Figure 17: Change in public sector employment between June 2011 and June 2012 (thousands)



Source: ACTU calculations based on ABS 6248.0

Figure 18: Change in public sector employment between June 2011 and June 2012 (per cent of total)



Source: ACTU calculations based on ABS 6248.0

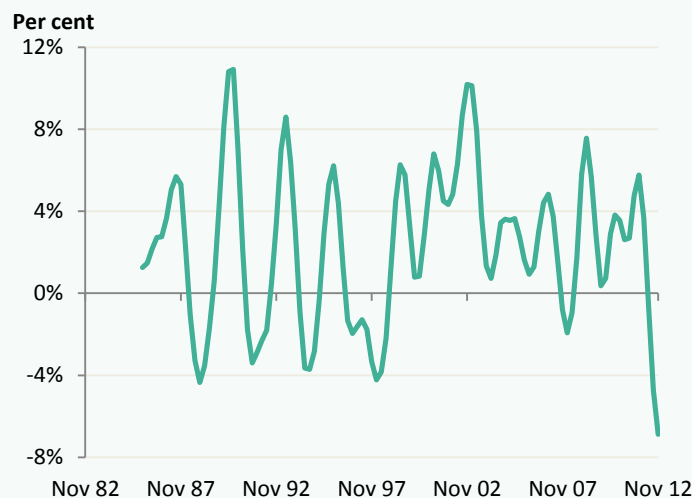
The usual monthly and quarterly labour force data from the ABS that form the backbone of this report doesn't distinguish between public sector and private sector employees. To fill this gap, the ABS publishes a yearly report on earnings and employment in the public sector; this is where the charts above are derived from.

Unfortunately, the data on public sector employment only tell us about what happened in the year to June 2012. A lot has happened since then. The Newman Government only took office in late March, and much of the reduction in public sector employment has taken place in 2012-13. To get a sense of the impact of the job cuts since June on public sector

employment, we can look at employment in industries dominated by the public sector. The quarterly data don't enable us to separate public and private sector employment, nor to separate State/local employment from the Commonwealth public sector, but they nevertheless give some indication of the effect of changing government employment.

The public administration and safety industry is dominated by public sector workers, accounting for around 87% of the industry total. This industry includes public servants who administer programs and provide policy advice, as well as functions like police and fire services. In the year to November 2012, the number of workers in this industry shrank by 50 800; around half of this fall happened between May and November. This represents a fall in employment of 6.9% in the industry – by a large margin, this is the largest annual fall in employment in public administration and safety since the quarterly labour force data began in 1984.

Figure 19: Annual change in employment in the public administration and safety industry



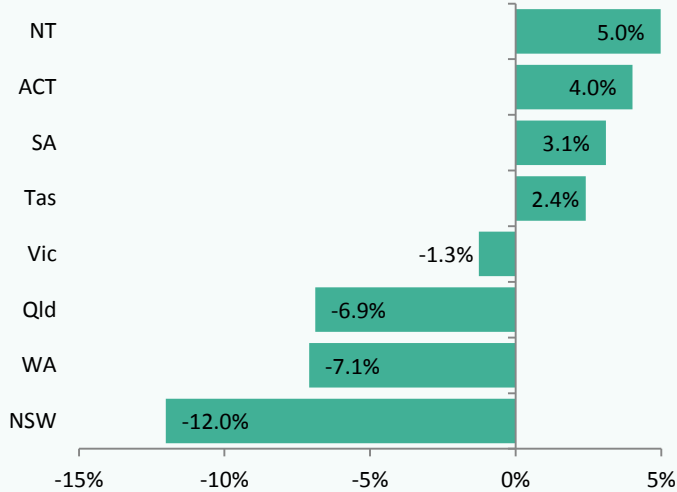
Source: ACTU calculations based on ABS 6291.0.55.003, trend.

Most of the reduction in employment in the industry came from NSW, which lost 27 000 workers in public administration and safety, and Queensland, which shed 10 400. WA reduced employment in the industry over the year by 5 500, which represented a steep 7.1% fall.⁵ Remember that these figures

⁵ The figures on employment by industry by State are not seasonally adjusted. The sum of the changes at State level differs from the trend estimate of the national change.

include all employed persons in the industry – we don't know what proportion of the 27 000 net fall in NSW represents lost jobs in the Commonwealth, State, or local governments.

Figure 20: Change in employment in the public administration and safety industry: year to November 2012



Source: ACTU calculations based on ABS 6291.0.55.003, original.

ACTU analysis of State and Commonwealth public sector budgets suggests that the squeeze on public sector employment is far from over, and may even get worse. All the jurisdictions report their forecast spending on 'employee expenses', the largest component of which is wages and salaries. Most of the budgets suggest that governments around the country plan to restrict growth in employee expenses in the current fiscal year and in 2013-14. This can either come through reducing the pace of wages growth; or reducing employment growth; or by changing the mix of public employees, reducing employment at the upper levels and increasing it at the lower levels. Most government seem to be pursuing some combination of these approaches.

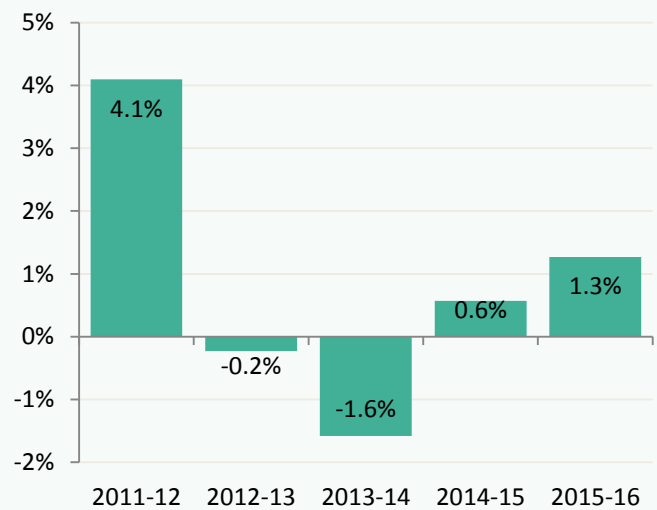
There is certainly evidence of reduced wages growth in the public sector. The average annualised wage increase in all the public sector agreements that were in operation in June 2012 was 4%, but the average for agreements approved in the September quarter was 2.8%. This suggests that newly registered agreements are providing for lower wage increases than the outstanding stock of agreements. The Wage Price Index for the public sector is growing at around its slowest pace in a decade.⁶

⁶ ABS 6345

The collective governments' forecasts for expenditure on employee expenses imply that public sector employment will shrink in the current fiscal year and shrink even further in 2013-14.⁷ Nominal (ie. not inflation-adjusted) employee expenses rose 5.4% across the governments in 2011-12, and total employment fell. In the current year, nominal expenses are expected to rise just 3%, followed by a 0.9% rise in 2013-14. This shows that the squeeze on the public sector workforce is only just beginning.

The forecast 3% increase in nominal employee expenses in this financial year represents a real fall of -0.2%, given that inflation is expected to be 3.25%. The 0.9% nominal rise next year equates to a 1.6% fall in real spending. Given that a 4.1% real rise in 2011-12 resulted in a fall in public employment, a 1.6% contraction in employee expenses implies that the public sector workforce will contract severely in the coming years.

Figure 21: Projected real employee expenses of State, Territory, and Commonwealth Governments



Source: ACTU calculations based on government budgets. Nominal employee expenses (excl. super) deflated using the Commonwealth forecast for CPI inflation to 2013-14 and 2.5% thereafter.

The public sector is likely to be a drag on the overall Australian labour force for several years to come. The only way for Australian governments to come close to hitting their forecast rate of growth in employee expenses is to continue to reduce their workforce.

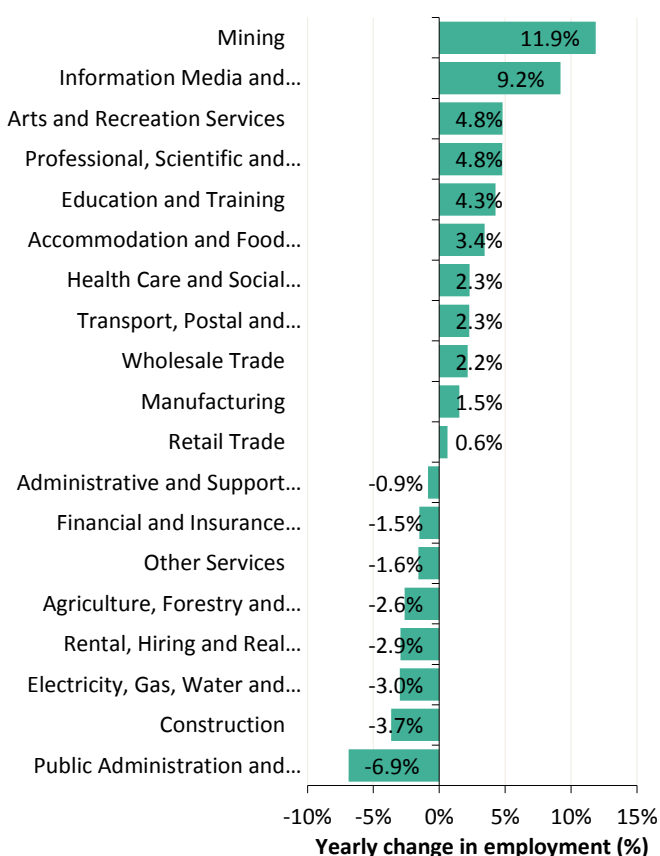
⁷ These figures refer to employee expenses (not including superannuation) in the general government sector of the State, Territory, and Commonwealth Governments, sourced from their respective budgets.

Employment by industry

There were 50 800 fewer people employed in the ‘public administration and safety’ industry in November 2012 than in November 2011. This huge loss of employment is the biggest in any industry (outside of agriculture) since the manufacturing industry shed 55 600 employees in the year to May 2009. Most of the lost public administration jobs were in NSW and Queensland, which together accounted for around two thirds of the net fall in employment in that industry in 2012.

Construction also had a weak year, losing 37 800 workers. The bright spots in the year were professional, scientific and technical services (+41 700 workers) and the education and training (+36 700) and health care and social assistance industries (+30 900). The relative strength of employment in the latter two industries, which have significant public sector and public-funded components, suggests that tight government budgets are making themselves felt most strongly in the public service, rather than the broader public sector.

Figure 22: Employment growth - November quarter 2011 to November quarter 2012 (per cent)



Source: ABS 6291.0.55.001, trend.

The mining industry came in fourth in 2012 for employment growth, adding 28 600 workers. Because mining is a relatively small industry, this equated to 11.9% employment growth over the year, by far the biggest of any industry. The professional, scientific, and technical services industry, which also grew strongly, has benefited from the mining boom and some of its growth is likely due to demand for services from mining.

One of the more surprising bright spots in the figures above is the ‘information media and telecommunications’ industry; it added nearly 20 000 jobs in the year. Drilling down into the industry data, though, reveals that most of the jobs growth was in the ‘telecommunications services’ sub-division, which includes the operation of phone and other communications networks. The ‘media’ parts of the industry are stagnating at best, and shrinking at worst.

The traditional publishing industry lost 2 200 jobs (-5%) over the year, while motion picture and sound recording also shrank by around 5%. The ‘internet publishing and broadcasting’ industry shrank a little; the ABS estimates that only 800 people across the country were employed in internet publishing in November 2011.⁸ This means that more than twice as many jobs were lost in traditional publishing in 2012 than exist in the entire internet publishing industry sub-division. The strength in the employment numbers in ‘information media and telecommunications’ should not be taken as an indication that all parts of that industry are doing well.

⁸ These numbers have large standard errors, and should be treated with caution.

Feature: The ageing population and declining participation

In late 2010, we set an all-time record for the Australian economy: nearly 66% of people aged 15 and over were either employed, or were actively looking for work. To put that in perspective, the labour force participation rate has averaged 63.2% since 1980.

In the past couple of years, participation has started to fall. From a peak of 65.9% in late 2010, the participation rate slid down to 65.1% in December 2012. If we'd kept a stable participation rate, we'd have around 150 000 extra people in the workforce at the moment.

A key question is this: what's causing the participation rate to fall? Is it that jobs growth has been weak, so people are giving up and stopping looking for work? Alternately, is it that the demographic tide is turning, and baby boomers are starting to retire? Another way of posing this question is to ask: to what extent is the decline in participation 'cyclical', and to what extent is it 'structural'? If it's mostly cyclical, then you'd expect to see the participation rate within particular age groups falling. If it's mostly structural, then the participation rates of particular groups could remain the same, but the

The answer, is that it's a bit of both. Over the past couple of years, the workforce participation rate of young people, aged 15-24, has fallen quite a bit (-1.2 percentage points); the rate for prime-aged workers, aged 25-54 has also fallen (-0.4 ppts). The rate for older workers has been more or less steady, rising by only 0.1 points in the two year period.

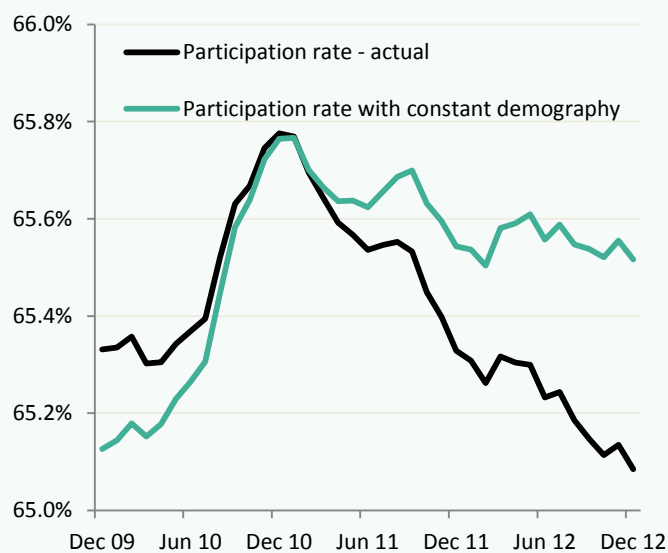
Since 2010, the population has aged: the proportion of the adult population that is aged over 55 has risen from 30.9% to 31.7%. The population shares of both young and prime-aged people has fallen commensurately (by 0.5 and 0.3 percentage points, respectively).

By putting all these facts together, we can calculate how much of the fall is due to the ageing population, and how

much is due to people within each age bracket becoming less likely to participate. The ACTU has decomposed the fall in the participation rate into these two components. We found that the participation rate fell 0.7 percentage points between late 2010 and late 2012, from 65.9% to 65.2%.⁹ Of this 0.7 point fall, 0.4 is due to a fall in the participation rate of particular groups, and 0.3 is due to the ageing of the population.¹⁰

In Figure 23, the greenish line shows what the participation rate would've been if the population share of each age group had remained unchanged from December 2010, while the black line is the actual participation rate.¹¹

Figure 23: Participation rate with and without the effects of demographic change



Source: ACTU calculations based on ABS 6202.

If the demographic structure of the country had stayed intact over the past couple of years, the participation rate would be higher than it is now, but still lower than it was in late 2010.

⁹ This refers to the average for October, November, and December of the original, non-seasonally adjusted data.

¹⁰ The ACTU analysis follows the decomposition method set out here: <http://www.frbatlanta.org/filelegacydocs/wp0906.pdf>

¹¹ The chart is based on a more granular decomposition of demographic effects, using eight age groups rather than the three broad groups alluded to above. The basic method is the same. These calculations are based on non-seasonally adjusted data, which are then adjusted and smoothed.

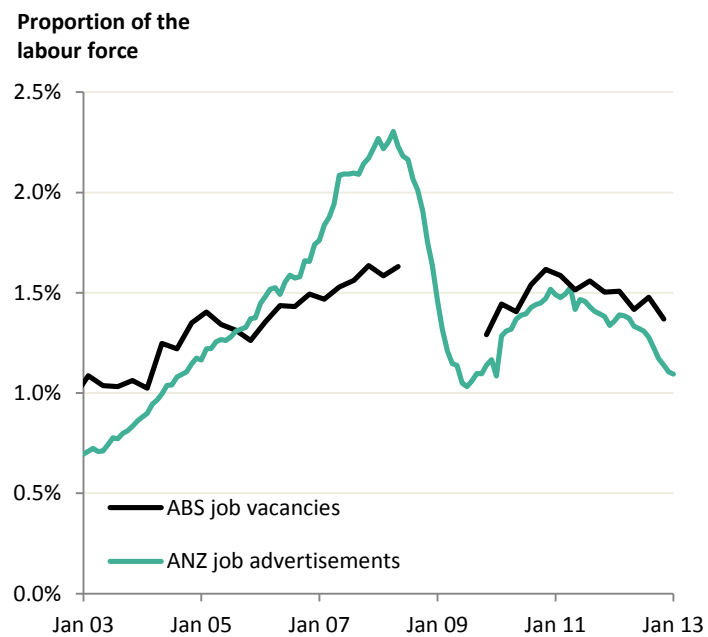
The outlook for Australian jobs

The Australian Government forecast last year that the unemployment rate would rise a little, to around 5.5% in the current financial year. The RBA forecast a similar rate. However, a range of forward-looking labour market indicators have deteriorated to such an extent that an unemployment rate above 5.5% appears a strong possibility by the end of the year.

The number of job vacancies or advertisements is usually a fairly reliable indicator of how the labour force is likely to fare in the coming months. When vacancies or ads rise, this is usually a sign that employers are hiring and employment will grow in the coming months; the converse also tends to be true.

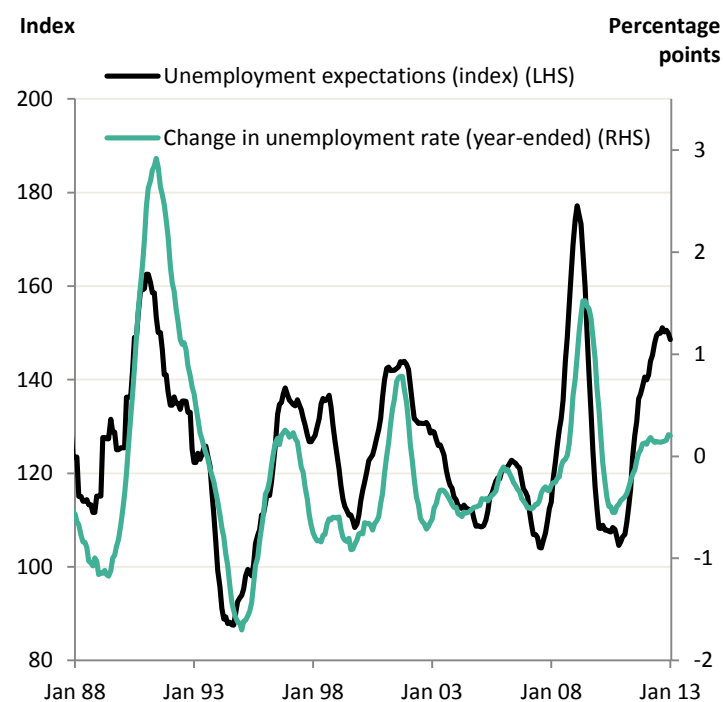
The bad news is that both job vacancies and advertisements are falling. The ABS found that there were 166 800 vacancies in November, down from 181 100 a year earlier, a 7.9% fall. The ANZ job advertisements series is more volatile; it showed a 16.7% fall in the year. The two measures have tended to track one another fairly closely, as shown in Figure 24.

Figure 24: Job advertisements and vacancies



Source: ACTU calculations based on ABS 6202, ABS 6354, ANZ.

Another good barometer for the labour market has been consumers' expectations about unemployment. When people increasingly expect unemployment to rise, it generally does, with a lag of a few months. Unemployment expectations have jumped sharply in the past year or so; other than the GFC, unemployment expectations are at their highest since the early-90s recession. Despite this, the unemployment rate has stayed relatively low, generating the biggest sustained gap between expectations and reality observed in the past couple of decades.



Source: ACTU calculations based on ABS 6202, Westpac-Melbourne Institute.

Ultimately, the fate of the Australian labour market in 2013 will depend on economic growth. Over the long run, unemployment tends to rise in Australia when GDP grows by less than 3.2%, while growth above that level tends to reduce unemployment. The RBA recently downgraded its forecast; it now expects growth of only 2.5% in the year to June. This, together with the forward-looking labour market indicators such as vacancies and expectations, suggests that unemployment will rise a little from its current level. However, there are some positive signs, including a large increase in consumer confidence in February (+7.7%), which suggests that the cuts in interest rates may be having a positive effect on economic activity.