

## Good News For The Other Economy

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The latest ABS figures have reminded us that there's an economy outside of the mining industry. Guess what? It's doing alright, especially where employment is concerned, writes Ian McAuley.

The strong employment growth revealed in yesterday's labour force statistics took most commentators and economists by surprise. The accepted wisdom is that most sectors, other than mining, are doing it tough.

The net growth of 44,000 jobs was spread across most states (only Tasmania saw a fall in employment), and three quarters of this growth was in female employment. This is not the pattern we would find if growth had been concentrated in the mining sector. It is possible that the Australian economy is recovering after a period of sluggish performance.

Over 2011, employment didn't grow at all, but since the end of last year there has been a net growth in employment of 77,000, including 32,000 full-time jobs. Such a growth is more than can be explained by statistical noise and undoubtedly the Government will rely on this data to vindicate its proposed tough budget. And the odds on the Reserve Bank cutting interest rates in May must surely have lengthened.

Part of the reason we were taken by surprise is that employment growth rarely commands the same attention as layoffs and plant closures. Employment growth is generally incremental — a few more people employed in existing establishments, or expansion of existing chains into new locations. Small businesses become established and some expand, taking on one or two more people, or perhaps converting a part-time position to a full-time one.

In recent months there has been a great deal of media coverage of job losses, particularly in the finance sector. These include plant closures, such as the loss of 140 jobs in the Heinz tomato sauce factory, and the recently announced closure of the BHP-Billiton/Mitsubishi Norwich coal mine.

Even in poorly performing industries, however, such as retailing, there are growing businesses such as the hardware operations of Woolworths and Wesfarmers.

Our economy, in fact, is very dynamic, as is revealed in a seldom-reported set of statistics tucked away towards the end of the regular ABS labour force statistics. A thousand jobs associated with a plant closure may seem to be a big figure, but it is tiny in comparison with the number of employment movements occurring every day.

In March, for example, 76,000 people who had been employed in February were recorded as unemployed in March (i.e. still in the workforce and seeking employment), while 77,000 people who had been unemployed in February became employed in March — almost an exact balance.

These figures do not include the 400,000 or so people who move into and out of the labour force in any one month, a figure which includes young people seeking their first job, parents returning to the workforce and conversely, retirees and people temporarily leaving the workforce. The ABS keeps no record of those who move from one job to another without any period of unemployment.

Such dynamism is characteristic of modern market economies. Jobs come and go, and people enter and leave the workforce. That is not to say people find it easy: losing a job or closing a small business is painful and the financial and emotional costs can be high, particularly if people have to re-locate, sell assets at distress prices, or take on new skills.

Policymakers should keep this dynamism in mind, and not be tempted to institute special measures for high profile closures or layoffs. It's better to ensure that there are policies in place to assist all who are being buffeted by the forces of structural change.

Those who complain about labour market inflexibility need to reconcile their claims against this data. We need to strike a balance between two dysfunctional historical models. One was central planning, where there was hardly any mobility. The other was the corporate attitude, exemplified in the daily hiring of waterside workers, that labour was an infinitely variable input that could be employed and dismissed at the firm's whim.